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REPORT FROM THE COMMISSION

ON THE SITUATION OF COMMUNITY RUM PRODUCERS

presented pursuant to point 8.3 of Poseidom

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**DRAFT REPORT ON THE SITUATION OF
COMMUNITY RUM PRODUCERS**

INTRODUCTION

1. Pursuant to point 8.3 of Poseidom, the Commission must report on the situation of Community rum producers and on the implementation of the measures required to safeguard their vital interests.
2. Most of the Community measures adopted in favour of the sugar cane - sugar - rum sector were implemented in 1992 and 1993. For instance, with regard to taxation, the tax concession granted to certain types of rum having the characteristics of traditional rum produced in the French overseas departments (FOD) was maintained. With regard to structural measures, the first operational programme under Poseidom was adopted in September 1992. In addition, the agricultural support measures for the processing of sugar cane into agricultural rum, provided for in Regulation (EEC) No 3763/91, were applied in the same year.
3. This report:
 - examines the situation of Community producers, particularly in the FOD, where most Community rum is produced;
 - lists the benefits of the measures adopted to assist them;
 - examines the prospects for Community producers, taking account of recent developments, particularly regarding taxation and market access for rum originating in ACP States, the overseas countries and territories (OCT) and other third countries.

LSITUATION OF COMMUNITY RUM PRODUCERS

A. Producers in the FOD

4. When considering rum, it is necessary to take account of the entire sugar cane - sugar - rum sector, of which it is the final stage and the one which makes the whole sector profitable.

1. Background and significance of the sugar cane - sugar - rum sector

5. The cultivation of sugar cane has a very long history, predating even the cultivation of bananas. Historically, this sector was the origin of the economic, social and cultural organization of Réunion, Guadeloupe and Martinique. Its growth and decline have been closely connected to the general development of both the wealth and social relations of these regions.

6. The crop is perfectly suited to the geographical and climatic conditions of the FOD and provides effective protection of the soil against erosion brought about by the torrential tropical rains. In addition, it is more resistant than the other crops to the devastating effects of hurricanes.

7. At present, the sector holds a key position in the economic and social equilibrium of the three regions concerned. Some figures are worth giving:

- 40 000 jobs, of which 22 000 are direct jobs;
- FF 1.5 billion in annual turnover;
- 50 000 hectares cultivated and 3 million tonnes of sugar cane harvested;
- on average about 45% of non-agricultural exports in terms of value, ranging from 85% for Réunion to 15% for Martinique.

8. There are significant regional differences in the balance of the sugar cane - sugar - rum sector. For instance, in **Réunion**, the sugar industry predominates, producing nearly 200 000 tonnes of white sugar. Rum, with average annual production at around 65 000 HPA, is a vital supplement to the profitability and development of the sector. Conversely, **Martinique** processes most of its cane production into rum, the small quantity of sugar produced (7 000 tonnes) being intended for the local market only. The situation in **Guadeloupe** is between the two, with sugar production in the order of 75 000 tonnes¹, but also a considerable quantity of rum at around 70 000 HPA.

¹ Average over the two marketing years prior to hurricane Hugo in 1989.

2. Classification of rum produced in the FOD

9. The wide variety of types of rum produced in the FOD is a result of the different ways in which the sector is organized in each of the regions. The French definitions distinguish between three main types of rum:
- "agricultural" rum is obtained exclusively from fermentation and on-the-spot distillation of the juice from local sugar cane and has a content of volatile constituents other than ethyl alcohol and methyl alcohol of at least 225 g/HPA. This is the so-called "traditional" rum;
 - "non-agricultural" rum is subdivided into two categories:
 - * the other "traditional" rums, obtained by on-the-spot distillation of sugar-cane molasses, produced locally. They must contain at least 225 g/HPA of volatile constituents other than ethyl alcohol and methyl alcohol
 - * "light" rums obtained by distilling sugar-cane molasses with a content of volatile constituents of between 60 and 225 g/HPA.
10. Since 1989, Community law² has provided for two definitions of rum, one generic and the other specific to the agricultural rum produced in the FOD without, however, recognizing the requirement to distil local sugar cane at the place of production. On the other hand, Community law does not define so-called "traditional" rum but allows the use of this name.
11. The scope of the two sets of rules differs. The French definition is designed to protect specific products by guaranteeing them preferential access to the French market, whereas the Community definition is designed to reserve the use of the name "rum", where appropriate amplified by specific particulars, to products of a quality and/or method of preparation corresponding to those of the types of rum traditionally sold on the Community market.
12. Only the Community definition is binding with regard to marketing on the Community market.

² Council Regulation (EEC) No 1576/89 of 29 May 1989 laying down general rules on the definition, description and presentation of spirit drinks, OJ No L 160, 12.6.1989.

3. Tax arrangements applicable to FOD rum in France up to 31 December 1992

13. The national organization of the market in rum in France is traditionally based on a system of reduced taxation applicable to traditional rums as defined under French law.

3.1 Excise duties on rum from the FOD

14. The application of lower excise duties in France is the key element by which outlets are guaranteed for rum from the FOD.

15. Under the preferential tax arrangements a reduced rate of consumer tax is applied to traditional rum. The tax concession granted for such rum is equivalent to about 42% of the normal excise duty.

3.2 Community rules

16. The Community authorized France to apply a reduced rate of duty on the consumption of so-called "traditional" rum produced by the FOD up to 31 December 1992. Under this Decision³ application of the reduced rate is restricted to a degressive annual quota fixed at 90 000 HPA in 1992, the last year covered.

4. Production trends

17. In aggregate, over the six-year period 1987-92 total rum production in the FOD slumped significantly (see Table 1). The drop varied according to the regions concerned, the way the sector is organized and the types of rum.

Réunion

18. Production is based on rum produced from local molasses in the three sugar factories-distilleries. Little agricultural rum is produced, since the cane is used primarily for the production of sugar. Production varies considerably from year to year, although it is not possible to determine the precise reasons for this.

19. Local molasses is used in three different ways to make the sector profitable: for animal feed (about 10%), for local rum production and by sending it to mainland France for distillation. The volume of local rum production therefore largely depends on this flexibility in the use of local molasses.

³ Council Decision 88/245/EEC of 19 April 1988, OJ No L 106, 27.4.1988.

Martinique

20. Martinique traditionally produces all three types of rum, with agricultural rum accounting for the largest share. Total rum production fell sharply during the period 1987-92, from an average of 96 230 HPA per year in 1987-89 to an average of 75 800 HPA per year in 1990-92.
21. Sugar production is becoming marginal, with sugar cane being used essentially for the manufacture of agricultural rum. Distillation takes place in the 12 so-called "smoking" distilleries. Although production of agricultural rum stays relatively stable at around 60 000 HPA, there is little scope for significant expansion because the present area under sugar cane is small and there is an obligation to use local sugar cane to be eligible for reduced excise duty rates.
22. Production of traditional, non-agricultural rum, distilled by the Gallion works, remains stable, but limited in volume at around 10 000 HPA.
23. Since local molasses was almost nonexistent, light rum was produced by distilling molasses rum from Guadeloupe. It was intended for foreign markets and particularly the German market, and about 20 000 HPA per year were marketed by the multinational company "Bacardi". The latter ceased operations in Martinique in 1991, which automatically resulted in ending the production of light rum.

Guadeloupe

24. Guadeloupe is the region where production is the most highly diversified and the closest balance exists between the three types of rum. This no doubt explains the slight fall in production which was most noticeable after 1990 and due mainly to:
 - the end of deliveries of light rum to Martinique intended for the German market by way of Bacardi;
 - a gradual return to the quantities traditionally produced after a strong growth of nearly 20% from 1988 to 1990;
 - the effects of hurricane Hugo (1989), which damaged the industrial fabric and brought about a reduction in sugar production and the quality of the sugar cane.
25. It should be noted that the production of agricultural rum is increasing very sharply (+60%) as, to a lesser extent, is that of the others traditional rums, and this has offset the losses recorded for light rums.

French Guiana

26. French Guiana does not have a great rum tradition. It produces about 1 000 HPA, i.e. about a quarter of its local consumption.

Table 1: **Rum production**⁴ (in hectolitres of pure alcohol: HPA)

Year	Types	Martinique	Guadeloupe	Réunion	Total ⁵
1987	all rums	99 700	66 800	81 700	248 200
	light rum	23 500	21 300	30 500*	75 300
	agricultural rum	63 300	12 000	300	75 600
1988	all rums	85 500	74 600	60 400	220 500
	light rum	19 100	21 000	29 000*	69 100
	agricultural rum	52 300	13 500	-	65 800
1989	all rums	103 500	79 600	73 600	256 700
	light rum	29 800	19 300	38 100*	87 200
	agricultural rum	63 000	14 500	700	78 200
1990	all rums	84 800	72 200	58 700	215 700
	light rum	20 300	23 000	21 600*	64 900
	agricultural rum	53 300	17 000	300	70 600
1991	all rums	66 600	61 700	71 700	200 000
	light rum	4 400	6 500	31 300*	42 200
	agricultural rum	51 800	19 200	1 200	72 200
1992	all rums	76 000	60 000	52 500	188 500
	light rum	800	600	16 400*	17 880
	agricultural rum	60 660	19 800	-	79 800

Source: IEDOM

* The production of light rum in Réunion is certainly greater because it includes in addition part of the so-called "industrial" rum (traditional or light non-agricultural rum) produced in the area.

⁴ Some caution is advisable because of the unreliability of statistics up to 1990: the quantities of rum pre-distilled in Guadeloupe before being sent to Martinique for dispatch to the Community market might have been counted twice. The quantities involved (maximum 20 000 HPA/year) reduce the drop in production somewhat but do not change the general analysis and the downward trend in the production and marketing of FOD rum. On this basis, the drop would amount to 40 000 HPA during 1987-92 instead of 60 000 HPA as the raw figures seem to suggest.

⁵ To this total should be added the production of French Guiana, i.e. about 1 000 HPA per year.

27. The major trends in recent years show:

- a significant general reduction in aggregate production;
- a considerable fall in the production of light rum;
- a slight increase in the production of agricultural rum, which is largely explained by the tax incentive on the market of mainland France and by the Community aid introduced for the direct processing of sugar cane into agricultural rum;
- stabilization in the production of other traditional types of rum.

5. Marketing trends

28. Over the period 1987-92, sales of rum from the FOD fell in line with production (see Tables 2, 3 and 4), i.e. by about 40 000 HPA⁶. This gross figure reflects differing situations according to overseas department and especially according to the market for which the goods are intended. Sales of rum from Guadeloupe have stabilized, whereas Martinique has seen a substantial fall in the volume marketed. Réunion is a special case, with substantial swings from year to year but a general downward trend. On Réunion the industry is geared largely towards sugar production. The use of molasses is the key to the profitability of the whole sector. The option of processing into rum is the main factor contributing to this profitability (see point 23), which explains the importance of marketing prospects in producers' decision-making.

5.1 Trends by market

29. The main sales outlets for rum from the FOD are the following three markets: local consumption, mainland France and Germany. The presence of the FOD is very marginal in the rest of the Community market. Consumer tastes vary from one Member State to another. In France and Germany, consumption of dark rum is still high while elsewhere white rum has taken a large share of the market. The French overseas departments produce both dark and white varieties of traditional and light types.

The local markets

30. These are very stable and account for a growing percentage of the volumes marketed. At regional level, the losses made by Réunion are offset by the gains obtained in Guadeloupe. The impact of the lower taxes is very significant and has made this stability possible despite the development of supermarket retailing, which has led to a diversification in alcoholic beverages on sale and a fall in their prices.

⁶ Taking account of the 1993 figures, the fall over 1987-93 is of around 50 000 HPA, i.e. from 142 000 HPA in 1987 to 92 000 HPA in 1993 (Sources: Eurostat; Comext).

Table 2: Sales on the local markets (in HPA)

Year	Martinique	Guadeloupe	Réunion	Total
1987	20 800	11 100	27 800	59 700
1988	21 400	11 900	27 100	60 400
1989	18 400	11 900	25 600	55 900
1990	16 100	12 600	26 800	55 500
1991	20 400	15 000	20 000	55 400
1992	20 700	15 000	21 200	56 900

Source: IEDOM

In mainland France

31. Some 50% of the rum production of the FOD is sold in mainland France. The stability of sales is largely explained by the tax concession. Traditionally, France does not import rum from the ACP States, with the exception of small quantities from Madagascar, which has enjoyed similar tax treatment to the FOD. However, in 1993 ACP rum managed to penetrate the French mainland market to the tune of 3 500 HPA⁷.
32. At regional level, there is a significant increase to be seen in sales by Guadeloupe (about +30%) which offsets the decline in sales of identical proportions by Martinique. In addition, Réunion seems to be recovering the share of the French market it had before 1988.

⁷ Source: Eurostat; Comext.

Table 3: Sales on the French mainland market (in HPA)

Year	Martinique	Guadeloupe	Réunion	Total
1987	46 000	24 400	26 100	96 500
1988	45 100	26 200	15 600	86 900
1989	42 300	26 000	15 800	84 100
1990	48 400	35 900	18 600	102 900
1991	42 300	34 000	16 500	92 800
1992	37 200	35 200	21 800	94 200

Source: Eurostat (Comext)

On other markets

33. There has been a spectacular slump in sales on the German market (down 30 000 HPA between 1987 and 1992), which has mostly affected Martinique and Réunion. With regard to Réunion the situation is not totally straightforward: alongside the trend in direct deliveries from Réunion to Germany, there has been a fluctuation in the quantities of rum delivered by France to Germany, some of it from Réunion. Guadeloupe has kept its market shares, although the quantity delivered to the German market is small (3 500 HPA).
34. Germany aside, sales of FOD rum on the rest of the continental Community market are negligible.

Table 4: Sales on the German market (in HPA)

Year	Martinique	Guadeloupe	Réunion	France	Total
1987	21 000	3 700	20 700	4 500	49 900
1988	17 000	2 300	15 500	600	35 400
1989	21 400	1 400	22 600	100	45 500
1990	19 700	4 000	14 300	1 000	39 000
1991	17 200	0	3 800	16 000	37 000
1992	100	3 600	7 800	7 600	19 100

Source: Eurostat (Comext)

5.2 Trends by type of rum

35. Overall, there has been a slump in sales of light rums and a slight increase in agricultural grade rums.

Light rums

36. The decline in light rums follows the decision by the multinational "Bacardi", taken during the 1988/89 marketing year, to relocate distillation from Martinique to Trinidad and Tobago, for reasons associated with costs, but also because of the uncertainties about the availability of the raw material. The volumes concerned are in the order of 20 000 HPÅ/year, i.e. about 30% of the volume currently marketed by Martinique. This decision also affected Guadeloupe, which supplied molasses-based rum for distillation into light rums in Martinique.
37. Réunion, after a slump in its sales on the German market, has succeeded in winning back part of its original market share, although it has not reached the level of previous years. The structure of the sector in Réunion, which is chiefly based on sugar production, helps explain the annual fluctuations, although there is a general downward trend.

Agricultural and traditional rums

38. Agricultural and traditional rums have succeeded in maintaining their position on the various markets and even in improving it in certain cases. For instance, in 1990 the producers of Réunion launched quality products on the local market which could have a future on other markets. Guadeloupe has begun to produce agricultural rum and has increased its sales of other traditional types of rum, particularly on the market of mainland France. Martinique, traditionally a producer of quality rum, has managed to maintain its agricultural rum sales on the French market.

B. The other Community producers

39. There are two other sugar cane - sugar - rum sectors in the Community outside the FOD.

In Spain

40. Sugar cane is grown in the south of the country, in the coastal areas of the Provinces of Malaga and Granada. It is an irrigated crop covering about 2 500 hectares. The cane produced is processed into white sugar in two factories, with a total annual production of around 15 000 tonnes.
41. This traditional crop is in decline and it is uncertain whether it will continue. The plantations are small (1 hectare on average for 1 800 producers) and the plant at the sugar factories is ageing. The present survival of the sector depends on the ancillary activities of distilling

local molasses. The rum from these regions is given a geographical designation ("ron de Malaga" and "ron de Granada") recognized in the Community definition of rum.

42. The volume of rum production is very variable. At the beginning of the 1980s it amounted to some 10 000 HPA, increased to about 19 000 HPA in 1985-87 and fell again to around 10 000 HPA in 1992.⁸

In Madeira

43. Rum is produced exclusively by fermenting the juice from sugar cane produced locally and is marketed under the name "Rum da Madeira", a geographical designation included in the Community definition.
44. The three industrial units produce an annual total of about 1 650 HPA, mainly intended for the local market either through the sale of bottled products or supplied in bulk to the liqueur industry. These units use out-of-date technologies and have a low yield.
45. The Community has adopted a certain number of measures to assist this sector under Poseima:⁹
- with regard to taxation, Council Directive 92/84/EEC of 19 October 1992¹⁰ authorizes the Republic of Portugal to continue to apply reduced rates of excise duty in Madeira, which may not be more than 50% lower than the national rates, for the rum of this region which complies with the Community definition;
 - aid for the cultivation of sugar cane, which is part of the restructuring plan drawn up by the regional authorities, and aid for direct processing of local sugar cane into cane syrup or agricultural rum¹¹.

* *
*

⁸ Statistics supplied by the Federación española de fabricantes de bebidas espirituosas.

⁹ Council Decision 91/315/EEC of 26 June 1991 establishing a programme of options specific to the remote and insular nature of Madeira and the Azores, OJ No L 171, 29.6.1991.

¹⁰ Council Directive 92/84/EEC of 19 October 1992 on the approximation of excise duties on alcohol and alcoholic beverages, OJ No L 316, 31.10.1992.

¹¹ Commission Regulation (EEC) No 2627/93 of 24 September 1993 on fixed-rate aid for the cultivation of sugar cane and aid for the processing thereof in the Island of Madeira, OJ No L 240, 25.9.1993.

46. Mention should also be made of Community production in Germany of "blended" rum (Rumverschnitt), a spirit beverage made from agricultural alcohol with the addition of at least 5% rum. Although it competes with rum on the German market, "Rumverschnitt" does not have the organoleptic properties of rum and cannot be classified as such.
47. Rum may also be produced in other regions of the Community where there is no cultivation of sugar cane. Such rum is distilled from imported molasses and meets the generic definition of rum, but is not part of a sector in the same way as is the rum produced in the FOD, the Spanish regions and Madeira.

II. COMMUNITY MEASURES TO ASSIST THE SUGAR CANE - SUGAR - RUM SECTOR IN THE FRENCH OVERSEAS DEPARTMENTS

48. Poseidom recognizes the importance of rum to the equilibrium and economic and social development of the French overseas departments. Provision was therefore made for the adoption of structural measures to safeguard the vital interests of the producers in order to improve their competitiveness, restructure the sector and facilitate the marketing of their production. In addition to the structural measures, account was also taken of the tax arrangements applied on French territory to rum from the FOD following the expiry of Decision 88/245/EEC on 31 December 1992.
49. The Community has responded in these two areas through its various structural policy instruments and by continuing the tax concession for quality rums in the context of the harmonization of the structures of excise duties at Community level. It has also provided for additional measures to assist the sector under the EAGGF Guarantee Section.
50. Among the measures adopted by the Community, some concern rum directly, others sugar and sugar cane and others the sector as a whole. The importance attaching to each part of the sector should be borne in mind, since they are difficult to dissociate and each ensures the continued existence of the others.

1. Assistance from the Structural Funds

51. Over the period 1989-93, Community structural assistance to the sector was granted primarily through:
 - the EAGGF Guidance Section:
 - * under the Community support frameworks for each of the regions;
 - * under the Community initiative specific to the most remote regions, i.e. Regis;
 - the structural measures financed by additional appropriations in 1992 and 1993 under Poseidom.¹²

¹² Commission Decisions C(92) 2116 of 10 September 1992 and C(93) 2796 of 5 October 1993.

56. The following table gives an indication of the various Community appropriations allocated to the sugar cane - sugar - rum sector during the period 1989-93. The Community contributions account for about 50% of eligible expenditure and are supplemented by national and regional aid and in some cases by private funds.

Table 5: Community structural assistance to the sector in 1989-93

In ECU million

	CSF 1989-93		Regis 1991-93		Poseidom 1991 and 1993 (3)	Total
	(1)	(2)	(1)	(2)		
Réunion	27	30%	1.6	7%	8.5	37.1
Guadeloupe	5.8	25%	1.7	18%	2.8	10.3
Martinique	0.8	4%	2.9	25%	0.9	4.6

(1) Indicative share of the measures to assist this sector in the overall EAGGF Guidance Section appropriation under the Community support frameworks.

(2) Indicative share of the measures to assist the sector in the overall EAGGF Guidance Section appropriation under Regis.

(3) Additional structural measures financed under budget heading B2-24 "programmes for the most remote regions":

- In Réunion, the measures mainly concern land improvements (stone removal and mechanization), the restructuring of a sugar plant and the improvement of reception and research stations. The size of the appropriation allocated to this sector shows the economic significance of sugar production in Réunion.
- In Martinique and Guadeloupe, measures mainly concern the restructuring of sugar factories, but also research and technical support.

53. Since 1989, assistance from the Structural Funds by programmes rather than by project has enhanced the flexibility of operations but makes it more difficult to identify the operations for a specific sector on account of the integration of certain measures. Mention should therefore be made of other measures to assist the sector, financed in particular by the ERDF, under Community support frameworks or certain Community initiatives, but where the amounts remain modest compared to those stated above.

2. EAGGF Guarantee Section measures under Poseidom

54. Regulation (EEC) No 3763/91¹³ provides for two measures to promote sugar cane - sugar - rum production in the FOD.

¹³ OJ No L 356, 24.12.1991.

55. The first provides Community support for implementing a restructuring plan for sugar cane cultivation. Aid is granted at a flat rate per hectare and takes two forms for the same parcels:
- firstly, a maximum amount of ECU 750/hectare for plantation work, involving an area of 27 400 hectares;
 - secondly, a maximum amount of ECU 1 747/hectare for land improvement work, covering an area of 9 850 hectares.
56. The second measure consists in granting aid for the processing of sugar cane into agricultural rum. The aid is paid to the distiller on condition that he has paid a minimum price to the sugar cane producer. The amount of aid is set at ECU 53.18/HPA for an overall quantity of 75 600 HPA.

3. EAGGF Guarantee Section measures under the common organization of the market in sugar

57. The production of sugar cane and its processing into sugar are covered by the common organization of the market in sugar. The specific nature of the sugar cane sector has been taken into account in two ways in the context of this market organization:
- by not setting a basic price or a minimum price for sugar cane, as is the case for beet;
 - by introducing measures to facilitate the sale of sugar from the FOD in the Community¹⁴.
58. The first measure provides that the prices of sugar cane are established by intra-sectoral agreements between the sugar cane producers and the sugar manufacturers. The second provides for aid for transport and aid for refining applied to sugar processed in a European refinery. These two forms of aid place FOD sugar at the same price level as ACP sugar. The overall cost of this aid to the Community budget over the period 1986-92 was on average ECU 16.6 million per year.
59. In view of the importance and vulnerability of this sector, any fall in sugar prices which could occur during the reform of the market organization scheduled for 1995/96 remains a subject of concern in the FOD.

¹⁴ Regulation (EEC) No 2225/86, OJ No L 194, 17.7.1986.

4. National measures authorized by the Council

60. Regulation (EEC) No 1785/81¹⁵ authorized a national aid scheme for the sugar sector in the FOD. Subsequently, Regulation (EEC) No 1254/89¹⁵ authorized a new national aid scheme but provided for it to be reviewed together with the Poseidom programme instead of when Regulations are adopted fixing sugar prices for the year.

5. Taxation

61. When it adopted the new excise duty arrangements applicable from 1 January 1993, the Community took account of the sensitivity of certain types of rum by allowing a continued tax concession in their favour on the French market, both in the FOD and in mainland France.

In the FOD

62. Council Directive 92/12/EEC of 25 February 1992¹⁷ provides that the general excise duty arrangements are not applicable in the FOD. This measure therefore allows France, if it so wishes, to keep reduced rates of excise duty (see point 16).

In mainland France

63. Council Directive 92/83/EEC of 19 October 1992 authorizes France to apply a rate reduced by a maximum of 50% of the normal national excise duty for certain types of rum meeting the following three conditions:
- only rum as defined in Article 1(4)(a) of Regulation (EEC) No 1576/89 is eligible for a reduced rate of excise duty;
 - the rum must be produced from local sugar cane harvested at the place of manufacture;
 - the content of volatile constituents per HPA must be in excess of 225 g and the alcoholic strength must be at least 40%.

¹⁵ OJ No L 177, 1.7.1981.

¹⁵ OJ No L 126, 9.5.1989.

¹⁷ Council Directive 92/12/EEC of 25 February 1992 on the general arrangements for products subject to excise duty and on the holding and movement of such products, OJ No L 76, 26.2.1992.

64. The combination of these three conditions corresponds to the French definition of traditional rum which was previously eligible for the tax concession.
65. Hence, if it so wishes, France may continue to apply the existing reduced rates of excise duty for traditional rums.

III. THE FUTURE OF THE SUGAR CANE - SUGAR - RUM SECTOR

66. In view of the worrying situation currently facing rum producers in the FOD, the Community must safeguard the vital interests of its producers in accordance with the spirit of Poseidom. The general socio-economic situation of these regions, as described in the first Poseidom assessment report¹⁸, makes it all the more necessary to maintain a sector which provides a large number of jobs and accounts for a large share of the exports of these three FOD.¹⁹
67. A significant level of production and marketing of rum is essential for the development, profitability and therefore the survival of the entire sector.
68. To achieve this, five priority aspects should be maintained/improved on:
- strengthening the competitiveness of the sugar cane - sugar - rum sector;
 - continuing the existing aid schemes;
 - improving the quality of rum and the value-added component,
 - continuing concessionary tax arrangements for FOD rum on the market of mainland France;
 - maintaining the diversity of sources of supply to the Community market.

1. Modernizing and improving the competitiveness of the sector

69. Building on the measures already taken, without which there would have been no guarantee of the survival of the sector, the Community should continue its efforts through the Structural Funds and market measures, but also by taking account of the specific constraints of these regions when examining existing or future national aid schemes.
70. The doubling of the volume of the Structural Funds between 1992 and 1999 should enable the measures for restructuring and modernizing the sector, started during the period 1989-93, to be stepped up and intensified. The continuation of Regis, a Community initiative specific

¹⁸ COM(94) 200 final of 30 May 1994; Report for 1992-93 on progress in the implementation of Poseidom.

¹⁹ Virtually all the exports from these regions are agricultural in nature. In the case of Réunion, sugar cane - sugar - rum accounted for almost 90% of agricultural exports and almost 72% of total exports in 1992. The figures for Guadeloupe in 1991 were 34% and 24% respectively and those for Martinique (1991) 16% and 10%.

to the most remote regions, should be used as in the past to supplement the measures adopted, by placing special emphasis on measures for innovation and diversification within the sector.

71. The modernization drive could cover not only agricultural structures, improving the quality of sugar cane or the sugar industry itself, but also training, research and development.

2. Continuing existing forms of aid

72. In view of the role of aid schemes in maintaining the equilibrium of the sector and the special arrangements for FOD sugar in the common organization of the market, it is important to maintain aid at its current levels.
73. The Commission will remain alert to the interests of producers in the FOD when reviewing the market organization for sugar, to take effect from the 1995/96 marketing year.
74. When the Commission examines national measures under points 10.1 and 10.2 of Poseidom, special attention will be paid to maintaining or adjusting aid schemes, in accordance with the general principles of the Treaty.

3. Improving the quality of rum and the value-added component

75. The trends in the Community rum market show a certain stability in consumption, with light rums dominant. The latter are imported mainly from five ACP countries (Trinidad and Tobago, Bahamas, Guyana, Jamaica and Barbados), and accounted for about 59% of the Community market in 1992.²⁰
76. The rum produced in the FOD is little known on the Community market outside Germany.
77. The slump in sales of light rums on the German market shows the limits to the FOD presence on this highly competitive market.
78. On the other hand, quality rums (agricultural rums, old rums, etc.) have performed well on the French market. The explanation for their absence in the other Member States lies more in the weakness of the marketing and distribution structures for these types of rum, although it is conceivable that traditional FOD rum might penetrate these markets in the medium term.

²⁰ Source: Eurostat; Comext.

79. Developing and improving the quality of and value added to traditional FOD rums could therefore meet two objectives:
- satisfy the demand on the French market for quality rum;
 - find niches in other Community markets, avoiding direct competition with light rums.
80. Point 8.3 of Poseidon provides for the introduction of measures facilitating the marketing of FOD rum. In this context, Regulation (EEC) No 3763/91, and more particularly Article 20, provides for the creation of a specific graphic symbol ("logo") with a view to ensuring greater awareness and consumption of quality agricultural products on the Community market that are specific to the FOD as remote regions. Quality rum could also benefit from such a measure.
81. Other measures designed to improve quality may be taken in the context of the Structural Funds, such as, for example, schemes to support the maturing of rum.

4. Maintaining the tax differential in favour of rum from the FOD on the French market

82. Rum from the FOD has maintained its trading position on the French market firstly because of the habits of consumers, who prefer agricultural and other traditional types of rum, and secondly because of the significant tax differential with the other categories of rum.
83. Decision 88/245/EEC provided that only "traditional rums" from the FOD may benefit from the reduced rate of excise duty on the French market. Later, in Directive 92/82/EEC, the Community authorized France to maintain a reduced rate on the basis of a certain type of rum, without limiting this concession to a specific geographical origin. In other words, any rum meeting the criteria defined in Article 23 of the Directive, whatever its origin, is eligible for the reduced rate of excise duty.
84. This possibility, which does not prevent rum of non-Community origin from benefiting from the tax concession, is liable to reduce the preferential effect of the measure for FOD rum considerably. At the moment, there are some producers in the ACP States producing traditional rums meeting the criteria laid down in Directive 92/83/EEC and therefore qualifying for the tax advantage if they are sold on the French market.²¹ Penetration of this traditional rum produced outside the FOD would frustrate the attempts being made by the sector to restructure and improve competitiveness.

²¹ Mainly heavy rum with a high alcoholic strength (60°) for blending in the manufacture of "blended" rum (Rumverschnitt).

5. Maintaining the diversity of sources of supply to the Community market

85. The main sources of supply to the continental Community market are the FOD (about 28% in 1993) and the ACP States (about 65% in 1993)²². The balance is shared between the rest of Community production (cf. points 42 to 50 above) and imports from some forty non-ACP third countries, with substantial fluctuations from year to year.
86. Point 8.3 of Poseidon provides that the Commission is to examine the economic and social implications of access to the Community market under the Fourth Lomé Convention for rum originating in the ACP States. The Community's principal ACP partners are Jamaica, Trinidad and Tobago, Guyana, Barbados and the Bahamas.
87. Protocol No 6 to the Convention stipulates that the importation of rum from the ACP into the Community is subject to a zero-duty tariff quota.

5.1 Method of calculating the ACP tariff quota

88. The volume of this quota amounted to 172 000 HPA under Lomé III, following the accession of Spain and Portugal. In Lomé IV, the Protocol concerning rum underwent significant modifications. The volume of the quota was fixed:
- until 31 December 1992: on the basis of the largest annual quantities imported from the ACP States into the Community during the previous three years, plus the same growth rates as those applicable under Lomé III, and not less than 172 000 HPA;
 - until 31 December 1993: on the basis of the same reference period, but without application of a growth rate;
 - for 1994 and 1995: the volume of the aggregate quota will be equal to that of the previous year, plus 20 000 HPA.

5.2 Management of the ACP tariff quota

89. Up to and including the 1987/88 marketing year, the quota was divided between the Member States as determined by the Council. A special provision required the United Kingdom to adopt the necessary measures to ensure that quantities imported from ACP States would be used to meet its domestic consumption only.

²² In 1987 the FOD supplied 47% of the needs of the continental Community market and the ACP States about 48% (Source: Eurostat, Comext).

90. Since the 1988/89 marketing year, this requirement has been abolished and a tariff quota for the whole Community has been gradually established. The national shares were definitively abolished on 1 January 1993.

5.3 Trends in imports from ACP States

96. Imports of rum from the ACP States have increased substantially since 1989/90. Taking as a basis the same reference period as that used for the FOD, i.e. 1987-92, there has been an increase of around 72%.

Table 6: Volume of ACP tariff quotas in relation to total ACP imports, 1987-93

Quota period	Volume of quota (HPA)	Total imports (HPA)	
1987/88	172 000	124 638	72%
1988/89	172 000	105 446	61%
1989/90	172 000	180 816	105%
1990/91	193 668	196 723	102%
1991/92	197 771	201 759	102%
1992/93	214 268	213 979	100%
1993/94	224 857		

92. As exports have grown, destinations within the Community have also diversified (Spain, Netherlands, Greece), with a continued presence on traditional markets (United Kingdom) and taking advantage of the growing market in Germany.

93. In 1989/90, for the first time since the tariff quota was introduced in the First Lomé Convention, the volume of rum imported from the ACP States completely filled the quota and even overran it. Since then the quota has therefore acted as a brake on rum imports from the ACP.

5.4 Trends in imports of rum from other countries

94. The Community market is also supplied from two other sources, which are non-Community countries and overseas countries and territories (OCT) associated with the Community.

95. Annex V to Decision 91/482/EEC of 25 July 1991 provides that rum, tafia and arak originating in the OCT may be imported into the Community free of customs duty up to the limit of a Community tariff quota fixed each year. The volume of the quota fixed for

1993 was 15 000 HPA. This option is under-utilized by the OCT, as there have been virtually no imports since 1991 and most imports have not been carried out under the quota arrangements.

96. Imports from non-Community countries have levelled out after a substantial increase in recent years. In 1993 they amounted to around 20 000 HPA. The main suppliers of the Community market are Mexico, Cuba, Venezuela, Brazil and Russia. The Community applies a customs duty of ECU 1/%vol/hectolitre for rum imported in bulk and ECU 1/%vol/hectolitre plus ECU 5/hectolitre for rum put up in containers of less than 2 litres.
97. The results of the Uruguay Round provide for a 36% reduction in the Community tariff on rum over six years. Once the reduction is completed in 2000, the tariff will amount to ECU 0.6/%vol/hectolitre for rum in bulk and ECU 0.6/%vol/hectolitre plus ECU 3.2/hectolitre for bottled rum.
98. The reduction in the customs tariff will make rum originating in non-Community countries even more competitive and will reduce the preferential advantage currently enjoyed by ACP rum.

IV. OUTLOOK FOR THE DEVELOPMENT OF THE COMMUNITY MARKET

1. Situation in 1983-93

99. The continental Community market for rum has increased during the last decade from 256 000 HPA (1983) to 322 000 HPA (1993), peaking in 1990 at 369 000 HPA. Since then the market has tended to level off.

Table 7: Trends in the supply of the mainland Community market in 1982-93²³

In millions of HPA		1986	313 500	1990	368 900
1983	256 000	1987	300 200	1991	336 300
1984	257 000	1988	252 900	1992	332 100
1985	281 600	1989	293 500	1993	322 700

Source: Eurostat (Comext)

100. The increase in the volume marketed in Germany since unification and the development of certain marginal markets (Netherlands and Greece) partly account for past growth.

2. Outlook

101. The Community market for rum is unlikely to change much in the years to come, as is the case for the market for all spirit drinks.
102. This outlook might change somewhat following the accession of new Member States, which will automatically lead to an increase in Community consumption, although this cannot yet be quantified.
103. The local market in the FOD, which has been stable since 1987, is expected to remain at the same level, i.e. around 55 000 HPA.

²³ Source: Eurostat (Comext).

These figures do not represent all mainland Community consumption of rum, since it does not include the small quantity of rum produced in the mainland Community, which is in rapid decline.

3. Trends in access to the Community market

3.1. Consequences of the Uruguay Round

104. The reduction in the customs tariff for rum originating in non-preferential third countries (-36% over six years) will inevitably lead to stiffer competition by enhancing the competitiveness of producers in non-preferential third countries. These producers are already very competitive, as witnessed by the overall increase in exports under the current arrangements, which are highly protectionist. The prospect of an increase in imports of rum from third countries is therefore very real and will become more so as the tariff is further reduced.
105. In view of the current methods for manufacturing these rums, competition is likely to focus on light rum. Competition could move into the traditional-rum sector if this market segment grows.

3.2. Removal of quota restrictions on ACP rum

106. Article 2(2)(b) to Protocol 6 of the Lomé Convention concerning rum stipulates that, with effect from 1 January 1996, the Community is to determine the procedures for the abolition (already envisaged) of the Community tariff quota, taking account of the situation and outlook of the Community market for rum and exports from the ACP States.
107. To this end, in its report pursuant to Article 2 of Protocol 6 to Lomé IV²⁴, presented at the same time as this report, the Commission is proposing:
- the abolition of the tariff quota for imports of light rum from the ACP States with effect from 1 January 1996;
 - maintaining a tariff quota for imports of traditional rum from the ACP States. The volume of the quota will be fixed at 20 000 HPA and increased by 2 000 HPA each subsequent year. It will be definitively abolished with effect from 1 January 2000.

²⁴ Commission report to the Council on the situation on and outlook for the market in rum provided for in Article 2(2)(b) of Protocol 6 to the Fourth ACP-EEC Convention. COM(94) ...

4. Outlook for Community producers

4.1. FOD producers

108. Until 31 December 1992, four factors came into play to maintain the volumes sold by the FOD on the mainland Community market:

- the reduced taxes granted only to traditional FOD rum on the French mainland market;
- the inability of ACP rum to penetrate the French market, as a result of the administration of the national shares of the ACP tariff quota;
- the prospects for growth of certain Community markets;
- CCT protection against imports from non-preferential third countries.

Since none of these factors now apply, the protection enjoyed by FOD rum has been substantially eroded.

109. The outlook for sales of traditional rum on the French mainland market will depend not only on the restriction of the tax concessions exclusively to FOD rum, but also on the course of action which the other producers (ACP States and third countries) will decide upon. Although restricting the tax concessions exclusively to traditional FOD rum will help it to remain competitive vis-à-vis traditional rum from elsewhere, there is still a considerable danger from light rum as a substitute product.

110. Light rum did not previously enjoy any special tax concessions in relation to rum of the same type originating elsewhere. Only its competitiveness determines its sales on the continental Community market (e.g. in Germany). The impact of market liberalization will therefore depend mainly on the ability of producers to keep a competitive edge.

4.2. Other Community producers

111. The other Community producers (see points 42 to 50) cater mainly for their local markets and are not in a position to develop a strategy covering the entire market. It is therefore difficult to determine the impact on them of the trends discussed above.

CONCLUSION

112. The special socio-economic situation of the FOD as described in the annual report for 1992-93²⁵, stresses the importance of continuing this production for the entire sugar cane - sugar - rum sector which, as in the case of bananas, is the basis of the economic and social equilibrium of these regions. In accordance with Poseidom, the Community must, as in the past, safeguard the vital interests of Community rum producers and particularly those of the FOD.
113. In the new context of liberalization of imports and in view of the drop in the quantity of FOD rum marketed in recent years, Community producers must make a major effort to adjust in order to meet the new requirements and challenges of the Community market in rum. The Community must support these efforts and this will mean continuing and supplementing the measures already undertaken in the previous period to assist the sugar cane - sugar - rum sector, namely:
- the sector should be taken into account under the Structural Funds for the period 1994-99. It has already been included in the recently adopted Community support frameworks for 1994-99. In addition, Regis II, the Community initiative for the remotest regions, provides options for supplementing efforts to modernize and improve the competitiveness of the sugar cane - sugar - rum sector, particularly with regard to product development and the search for new outlets;
 - maintaining the outlets and incomes for sugar producers in the FOD, which is a necessary precondition for maintaining the sector and therefore rum production, particularly by taking account of the specific characteristics of this production when the market organization for sugar is reformed in 1995/96.

Lastly, the Commission is prepared to examine in a positive spirit all French initiatives to implement a national aid scheme targeting the entire sector.

114. The Commission believes that the positive effects of these efforts on the competitiveness of the sector will only be felt in the medium term. Pending these effects, and in view of the inherent consequences of the liberalization of the Community market in rum, the Commission takes the view that taxation measures provide the only effective and immediate means of maintaining a "commercial niche" for FOD rum at a level corresponding to the traditional trade recorded in recent years. In this connection, before

²⁵ Report for 1992-93 on progress made in implementing Poseidom; COM(94) 200, 30 May 1994.

the end of 1994 the Commission will, on the basis of Article 227(2) of the Treaty on European Union, present a proposal for a Council Decision to give France the option of applying reduced taxes to traditional rum produced in the FOD on its territory.