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REPORT

drawn up on behalf of the Committee on Agriculture, Fisheries and Food

on the proposal from the Commission of the European Communities to the Council (COM(85) 433 final - Doc. C 2-76/85) for a regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector

and

on the amendment to the proposal from the Commission of the European Communities to the Council (COM(85) 754 final - Doc. C 2-150/85) for a regulation (EEC) amending Rgulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector

Rapporteur: Mr E. WOLTJER

WG(VS1)/3127E

PE 101.510/fin.
Or. Ne.

By letters of 28 August 1985 and 20 December 1985, the President of the Council of the European Communities requested the European Parliament to deliver an opinion, purusant to Articles 42 and 43 of the EEC Treaty, on the proposal from the Commission of the European Communities to the Council for a regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector and on the amendment to the proposal for a regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector.

On 9 September 1985 and 13 January 1986 respectively, the President of the European Parliament referred these proposals to the Committee on Agriculture, Fisheries and Food as the committee responsible and to the Committee on Budgets and the Committee on Development and Cooperation for an opinion.

On 18 September 1985, the committee appointed Mr WOLTJER rapporteur.

On 13 January 1986, the President of the European Parliament referred the motion for a resolution tabled by Mr HAPPART on maintaining sugar-beet production (Doc. B 2-1214/85) pursuant to Rule 47 of the Rules of Procedure to the Committee on Agriculture, Fisheries and Food. At its meeting of 23 January 1986, the Committee on Agriculture, Fisheries and Food decided to annex this motion for a resolution to the draft report.

The committee considered the proposals and the draft report at its meetings of 15 October 1985, 19 November 1985 and 22/23 January 1986. At the last meeting, the committee adopted the motion for a resolution by 23 votes to 9 with 11 abstentions.

The following took part in the vote: Mr TOLMAN, chairman; Mr EYRAUD, first vice-chairman; Mr GRAEFE ZU BARINGDORF, second vice-chairman; Mr MOUCHEL, third vice-chairman; Mr WOLTJER, rapporteur; Mr BATTERSBY, Mr BOCKLET, Mr BORGO, Mrs CASTLE, Mr CLINTON, Mr COLINO SALAMANCA, Mrs CRAWLEY, Mr CRESPO (deputizing for Mr MADEIRA), Mr DALSASS, Mr DEBATISSE, Mr DURAN I LLEIDA, Mr GARCIA RAYA, Mr GATTI, Mr HAPPART, Mr HOWELL (deputizing for Sir Henry PLUMB), Mrs JEPSEN, Mr MAHER, Mr MARCK, Mrs MARTIN, Mr MERTENS, Mr MORRIS, Mr NAVARRO VELASCO, Mrs NIELSEN, Mr F. PISONI, Mr PROVAN, Mr RAFTERY (deputizing for Mr FRUH), Mr REMACLE (deputizing for Mr GUARRACI), Mr ROELANTS du VIVIER (deputizing for Mr CHRISTENSEN), Mr ROMEOS, Mr T. ROSSI, Mr SALZER (deputizing for Mr STAVROU), Mr SIERRA BARDAJI, Mr SIMMONDS, Mr SPATH (deputizing for Mr. N. PISONI), Mr THAREAU, Mr VASQUEZ FOUZ, Mr VERNIMMEN and Mr WETTIG.

The opinions of the Committee on Budgets and the Committee on Development and Cooperation are attached.

The report was tabled on 28 January 1986.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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The Committee on Agriculture, Fisheries and Food hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

A

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector and on the amendment to the proposal for a regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector

The European Parliament,

- having regard to the retracted proposal from the Commission to the Council (COM(85) 433 final) and the amendment to the proposal from the Commission to the Council (COM(85) 754 final),

- having been consulted too late by the Council pursuant to Articles 42 and 43 of the EEC Treaty (Docs. C 2-76/85 and C 2-150/85),

- having regard to the report from the Commission to the Council pursuant to Article 24(7) of Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector (COM(84) 238 final),

- having regard to the report of the Committee on Development and Cooperation on the medium- and long-term problems of the Community's sugar policy in relation to the ACP-EEC Sugar Protocol[1],

- having regard to the recent pronouncements by the ACP-EEC Joint Assembly,

- having regard to the motion for a resolution by Mr HAPPART (Doc. B 2-1214/85),

- having regard to the report of the Committee on Agriculture, Fisheries and Food and to the opinions of the Committee on Budgets and the Committee on Development and Cooperation (Doc. A-2-209/85),

- having regard to the result of the vote on the Commission's proposals,

A. whereas the Council, in requesting this opinion, has shown a blatant disregard for the European Parliament's right to be consulted, by taking a decision in principle on an amended proposal at a time when the Parliament had not been informed of the existence of this amended proposal and whereas an informal agreement has been reached within the Council,

B. whereas this proposal fails to solve a number of fundamental problems, which have in fact been put off for two years,

[1] OJ No. C 242, 12.9.1983, p. 115

C. whereas it is not clear whether the levy agreed upon in the Council, which is to vary depending on the Member State concerned between 0.33% and 1.6%, has been fixed for the whole period of five years or not and it is therefore unclear whether it will be enough to make good the deficit of 400 m ECU accumulated over the past five years,

D. noting that, although the Council has unanimously estimated that the average export refund over the next five years will not be 40.38 ECU per 100 kg (unlike in 1984/1985) and that an average of 'only' 35.56 ECU per kg (equivalent to 66% of the EC intervention price for 1985/86) will be needed, this does not offer sugar producers any guarantee that the A and B levy will not nevertheless be increased in the future in order to make the sector self-financing,

1. Protests strongly at the fact that the Council of Ministers, at its meeting of 9 and 10 December 1985, took a decision in principle on an amended proposal before Parliament had been consulted and that as a result the present opinion of Parliament will be no more than a formality;

2. Considers that certain problems in the sugar sector have not been resolved:

   - the large measure of inflexibility of the present quota system as a result of many different derogations, including the system of mixed prices and contractual agreements to grow B and C sugar;

   - the persistent average production surplus of 3.5 tonnes, including 1.7 m tonnes of C sugar, which has to be exported together with the 1.3 m tonnes from the ACP countries;

   - the problems of the developing countries, which are finding it more and more difficult to sell their unrefined (cane) sugar on a very constricted world white-sugar market;

   - the danger that the production levy will be increased again in two years' time because the level of export refunds will turn out to be higher than the Council's present estimate as a result of lower world market prices;

   - changes in consumption in Spain and Portugal as a result of the gradual adaptation of retail prices in these new Member States;

3. Considers it necessary to initiate a genuine bioenergy policy which would direct sugar surpluses into a system of sugar-beet ethanol processing;

4. Considers in this context that the possibility provided for in the Commission proposal to revise the levies before the end of 88-89 should also include the possibility of a downward revision of the rate and basis of assessment;

5. Notes moreover that no action has been taken to correct the serious imbalance between the Member States in the allocation of B quotas relative to A quotas;

6. Asks the Commission to take account of the above in its future proposals;

7. Urgently calls on the EC to make every effort to achieve in the near future a genuine, effective ISA (International Sugar Agreement) in order to restore balance to the world sugar market without prices becoming unreasonable;

8. Calls for an end to the distortion of competition existing at present to the detriment of sugar and to the benefit of isoglucose in particular, and for measures to be taken guaranteeing absolute equality between sugar and starch;

9. Will keep a close eye on developments in the sugar sector both within and outside the Community and demands to be consulted on the possible revision in two years' time of the quota and the levy as envisaged in the Council's decision in principle;

10. Considers it essential in particular for the Community chemical industry to obtain its sugar supplies from within the EEC;

11. Instructs its President to forward this resolution and report to the Council and the Commission together with a protest against the procedure followed and pointing out that the final opinion will only be delivered in two years' time.

B

EXPLANATORY STATEMENT

1. INTRODUCTION

In 1981, a new Regulation on the sugar sector entered into force for a period of five years. Article 23 of this Regulation lays down that the Council must adopt, by 1 November 1985, the arrangements to be applied from the start of the marketing year 1986/87, i.e. 1 July 1986.

The aim of this Commission proposal is to adjust the provisions with a view to application for a further period of five years. Although the original arrangements were intended to be transitional, the situation on both the internal and world markets rules out discontinuation of the quota system.

Before the entry into force of the quota system, sugar production was one of the most dynamic, but also one of the most problematic market-orientated sectors in arable farming in the Community. Its dynamic nature was characterized - and, to a certain extent, still is - by improved cultivation techniques and yields, also (though much less these days) increasing acreage; production levels, internal-market saturation and excessive world stocks were its problem areas - and still are. Further complications are preferential imports from developing countries and the development of substitute products.

The importance of sugar production varies from Member State to Member State, representing 1.4% of the value of agricultural production in Greece and 4.3% in Belgium. France and the Federal Republic of Germany account for more than 25% of Community production, Italy and the United Kingdom approximately 10% and the remaining Member States less than 10%, while the area under sugar beet has been approximately 1.7 m ha for some years.

Production of A and B sugar has been very stable since the introduction of the quota system, varying between 10.9 and 11.5 m tonnes. Since consumption totals approximately 9.5 m tonnes, the annual surplus production of A and B sugar exceeds 1.5 m tonnes. In addition, C sugar is produced : output was 71 000 tonnes in 1983/84 but 3.5 m tonnes in 1981/82.

On the world market too, production has exceeded consumption every year since the scheme's inception : end-of-year stocks have risen from 25.1 m tonnes in 1980/81 to 41.4 m tonnes in 1984/85. In the last five years, the price of raw sugar on the world market has fallen from 27 cts/lb to less than 4 cts/lb. (It should be noted that the estimated cost price for the world's most competitive producers is approximately 12 cts/lb.) World production totals approximately 100 m tonnes, of which rather less than 30 m tonnes are traded on the world market. As a result of the substitution of isoglucose for sugar, the volume of raw sugar purchased on this market by the US, Canada and Japan has fallen. However, demand for white sugar in the developing countries is on the rise; it accounts for more than 90% of the Community's sugar exports.

2. SITUATION ON THE WORLD MARKET

On the world market too, production has considerably outstripped consumption in recent years : total sugar stocks, which were no more than 25.1 m tonnes in 1980/81, reached 41.4 m tonnes in 1984/85; consequently, the world market price for sugar, which was 27 cts/lb five years ago, is now , in 1985, less than 4 cts/lb.

With an average export volume of 5 364 619 tonnes (over the best production years), the European Community is the largest supplier of sugar on the world market : its production and related exports are consequently a major factor influencing this market.

In 1981, negotiations began on a new International Sugar Agreement, to which the European Community has not hitherto been a party. At the insistence of the European Parliament in particular, the Community has attended these negotiations and its intention has been clear : to play its part in restoring equilibrium on the world sugar market.

Unfortunately, these negotiations have led only to agreement on a number of administrative arrangements; there have been no specific agreements on basic production quotas, export restrictions or other arrangements which could be genuinely conducive to restoring equilibrium on the world market for sugar and to ensuring stable prices for this product.

According to the most recent proposal from the President of the International Sugar Council on the establishment of export quotas, the European Community would be allowed to export a maximum annual volume of 4.9 m tonnes. Because of the position of Australia and Cuba in particular, actual agreements on export restrictions have not been reached; nor has the attitude of certain Member States been conducive to a decision on this proposal. The absence of such an agreement has been the principal cause of the collapse of the world market, which benefits neither the Community nor the other, developed sugar-producing countries nor the developing countries.

When establishing production quotas for the next five years, the European Community will have to make a major contribution towards restoring equilibrium on the world sugar market, as has been called for at recent meetings of the ACP/EEC Joint Assembly, and to this end it must follow the lead given by the proposals of the President of the International Sugar Council.

In this connection, it should also be borne in mind that the raw sugar import requirements of the US, Canada and Japan in particular have fallen as a result of the substitution of isoglucose for sugar.

3. FEATURES OF THE CURRENT ARRANGEMENTS

The production arrangements in the sugar sector are designed to gear output to market outlets and to defray the disposal of surplus production by means of financial contributions from producers.

The market organization in operation since 1981 is based on :

- A and B quotas allocated to undertakings by the Member States;

- a production levy scheme;

- contractual arrangements between undertakings and sugar beet suppliers.

Basic quantities A and B are also laid down for isoglucose.

The abovementioned principles must ensure that :

- 'budget neutrality' is achieved in the sugar sector;
- the farmers concerned receive reasonable incomes;
- harvests compensate one another;
- commitments as regards preferential imports can be honoured.

The arrangements cover beet sugar, cane sugar (sucrose) and isoglucose - the industrial sugar substitute made from maize - and include a prices system, rules on trading with third countries, and a quotas-based production scheme with differentiated guaranteed prices.

The intervention price for white sugar and raw sugar is one of the major elements of the prices system and the rules on trading with third countries. In addition, a target price (approximately 3% higher than the intervention price) and threshold prices are applied, the latter with a view to maintaining the principle of Community preference. A compensation system for storage costs is operated so as to ensure balanced marketing, the flat-rate reimbursement of such costs being offset by a storage levy paid by sugar manufacturers, refineries and importers.

Export refunds, export levies and import levies are applied in connection with trade with third countries. A basic price is applied to beet sugar which serves as a reference figure for determining the minimum price of A and B quota beet. The end price therefore depends on the level of the production levy, which, for A and B sugar, may not exceed 2% and 32% (2% + 30%) respectively of the intervention price. In respect of white sugar for 1985/86, basic quantities A and B for the entire Community have been fixed at 9 516 000 and 2 242 000 tonnes respectively, i.e. a total of 11 758 225 tonnes, while, for isoglucose, basic quantities A and B have been fixed at 157 649 and 40 436 tonnes respectively. Quotas are managed by the Member States, which are obliged to apply the Community's rules on exports. If costs cannot be fully covered by the revenue from the two production levies, the maximum levy on B sugar for the following marketing year may be raised to its ceiling of 37.5% + 2% of the intervention price.

4. PROPOSAL AMENDING THE ARRANGEMENTS

According to the explanatory memorandum accompanying the Commission's proposal,

- the present situation on the world market is disastrous;
- world market prospects remain bleak;
- over-capacity is much too great, both in the Community and elsewhere.

Consequently, the quota system has to be maintained. Because of Spanish and Portuguese accession, aggregate A and B quotas will be increased by 1 010 000 tonnes (1 m tonnes for Spain - 960 000 and 40 000 tonnes of A and B sugar respectively; 10 000 tonnes for Portugal - 9 000 and 1 000 tonnes of A and B sugar respectively). Since Spain's quota roughly corresponds to the domestic consumption level and there will be a shortfall of 295 000 tonnes in Portugal, surplus production of A and B quota sugar is expected to fall by 295 000 tonnes.

4.1 Quota levels

In view not only of Spanish and Portuguese accession but also of the chemical industry's rising demand for sugar, it is proposed that A and B quotas for sugar and isoglucose be maintained at the levels fixed for the 1985/86 marketing year.

4.2 Supplies for the chemical industry

In its communication 'Perspectives for the Common Agricultural Policy', the Commission indicated that industrial consumption of sugar could reach 0.5 m tonnes by the year 2000. However, industry requires not only regular and guaranteed supplies, but also sugar price levels far below those in the Community. Currently, a production refund of 30 to 40 ECU/tonne is paid under the European Agricultural Guidance and Guarantee Fund (EAGGF) in respect of Community-produced sugar supplied to industry.

However, only 10% of the difference between the world market price and the Community price is offset by these production refunds. Industry is yet more optimistic, believing that the volume made available via production refunds - 60 000 tonnes - could be increased to an annual 100 000 tonnes by 1990. However, production refunds would have to be financed within the sugar scheme;

since such refunds are lower than export refunds, budget expenditure would fall considerably as a result of supplying industry. For producers, the higher volume of guaranteed sales might be offset by such costs. For many years now, the sugar industry has been calling for an end to the different status of sugar and starch made available to the chemical industry under a production refund scheme. Compared with world market prices, the relative net price of sugar is still considerably higher than that of maize, from which starch is derived : after deduction of the production refund, the price of maize starch and sugar is approximately 120% and 310% respectively of the world market price[1].

4.3 Carrying forward of unused quotas

Pursuant to Article 27 of Regulation (EEC) No. 1785/81, sugar undertakings are free to carry forward the whole or part of their sugar production outside their A quota to the next marketing year. This option is not available to isoglucose-producing undertakings, however. Since peak production is in summer, isoglucose being used chiefly in soft drinks and ice cream, once A and B quotas have been filled, and in order to prevent the production of C isoglucose, they are obliged to suspend output during the main manufacturing period. The marketing year runs from 1 July to 30 June. Whereas, for many years, the sugar industry has been carrying forward approximately 1 m tonnes of production, this option has not been available to the isoglucose industry. The time is ripe for this unreasonable situation to be remedied : should a calendar marketing year (i.e. running from 1 January to 31 December), in which the peak production period fell mid-way so that output could be better regulated, prove unacceptable, isoglucose-producing undertakings should be free to carry forward, to the following marketing year, that part of their output that was not covered by A or B quotas, proceeding in such a way, however, that aggregate production over five marketing years was ultimately equivalent to five times the maximum permissible annual output. This would not increase the total quota, but it would give isoglucose producers the flexibility they require and remove the need for complete shutdowns of plant during peak periods.

[1] EEC Starch Regime, Select Committee on the European Communities, House of Lords, Session 1984-85, 10th Report, p. 62

4.4 Mixed-prices system

With the current arrangements, Member States are at liberty to derogate from the system of differentiated contracts, via agreements within the trade, and to operate a mixed-prices system. Such a system is applied by the Netherlands, Belgium and Italy. The Commisison has consistently opposed these arrangements on the ground that they may have consequences quite out of keeping with the objectives of the quota system. Consequently, the Commission proposes that in future the Member States must receive authorization from the Council to accept any derogation arranged via agreements within the trade and that any such authorization be valid for a single marketing year only.

For individual farmers, mixed-prices systems neutralize the effect of the quota arrangements. Producers are indeed required by the sugar industry to devote part of their output to C sugar. In many cases, such farmers would prefer it if the land set aside for C sugar could be utilized for more profitable produce and they were no longer under an obligation to grow loss-making crops.

Consequently, mixed-prices systems should be prohibited : this would enhance production transparency for farmers, and lessen their dependence on arrangements forced upon them by industry involving mixed prices and contractual obligations to produce.

4.5 Quota transfers between undertakings

To take account of both regional aspects and the need to permit a certain degree of development, the original arrangements provided for up to 10% of an undertaking's initial quota to be transferred to other undertakings. It is proposed that this percentage be raised to 15%, permitting some holdings to meet restructuring requirements and new ones to start up business. This amendment is fully in keeping with one of the objectives of the sugar Regulation : to enable the Member States to make structural improvements, taking account of the complex nature of both sugar-beet growing and sugar production, while bearing in mind at all times the interests of all parties, particularly of sugar-beet producers and sugar-cane producers.

4.6 Financing

Expenditure in connection with Community-produced sugar has in principle to be covered in full by the levies paid by producers, while the reimbursement of storage costs is financed by a special levy based on actual outlay. The disposal of production surpluses - exports are currently the only outlet - is financed by production levies. (This does not apply to the part of sugar exports that corresponds to the 1.3 m tonnes of imported preferential sugar.) Since the entry into force of the Regulation, however, there has been a revenue shortfall of 330 m ECU, producing a gap between income and expenditure which, according to the Commission's proposal, will have to be bridged by producers in the course of the next five marketing years. This is the main reason why the Commission is proposing an increase in the basic levy from 2% to 2.5% of the intervention price and an increase in the B levy ceiling from 37.3% to 47% of the intervention price. Therefore, while a deficit remained, the maximum levy of 49.5% would be applied to B sugar. The question arises whether such an increase in the levy might not create difficulties for individual producers, whose income would fall abruptly. The arguments advanced by the Commission should be analysed in order to determine whether this rise is necessary to ensure that the scheme will have no budgetary implications. The Commisison assumes an export refund of 400 ECU per tonne, while the average refund over the last five years has been 345 ECU per tonne. Accordingly, with a lower maximum levy, there would be two alternatives :

- either export refunds would remain high for a number of years, requiring a longer period over which to spread the deficit,

- or export refunds would be reduced, with a view to absorbing the cumulative shortfall over a reasonable period.

The inroads on the profitability of sugar-growing would thus be reduced.

5. EXAMINATION OF THE PROPOSAL

5.1 Quotas and levies

The principle of a quota system for the sugar sector and of self-financing should be retained. In view of the situation on the world market, however, it would appear advisable to adjust aggregate quota levels (A and B). If the A and B quotas were reduced by 5% and 10% respectively, fixing production volume at 9 040 200 and 2 017 800 tonnes respectively (total : 11 058 000 tonnes), surplus production would be cut to 328 000 tonnes (assuming a consumption level of 10 730 000 tonnes). Disposal of this volume on the world market on the basis of an export refund of 400 ECU/tonne would cost 131 m ECU and would have to be financed by a levy on B sugar. With a B quota of 2 017 800 tonnes and an intervention price of 541.8 ECU/tonne for the 1985/86 marketing year, the levy could be fixed at less than 20%.

The basis levy should be abolished completely, since it is effectively a co-responsibility levy, which is irrelevant when applied to production based on predetermined quotas.

Furthermore, the sugar industry should no longer be able to assume an automatic link between A and B quotas allocated to individual producers.

It is proposed that a farmer be allocated an A quota based on his production in previous marketing years and the size of his holding. The producer himself would then be able to propose extending cultivation to include B sugar - a decision which he himself must be in a position to take in the light of his holding's economic circumstances. The marginal costs of a highly specialized holding may be such that, unlike in a less specialized holding with higher marginal costs, an adequate income can be derived from cultivating a higher proportion of B sugar in relation to A sugar.

Both the mixed-prices system, which handicaps producers, and the contractual obligation to produce B sugar, which is imposed by the industry, ought to be abolished. The B quota should remain a specialization quota, with farmers free to choose whether or not to cultivate C sugar. As a result of this approach, the volume of B sugar production would probably fall, causing a further drop in Community surpluses; producers would derive higher incomes because they would be paid the full price for their A production and because a reduction in the B production levy would be possible.

5.2 Sugar for industry

The Commission proposal provides for a Council decision to take all or part of the losses arising from the granting of production refunds into account when fixing the production levies to be paid by sugar producers.

In the meantime, the Commission has submitted more specific proposals to the Council in this connection (Com(85) 504 final): the production refund in respect of sugar used in the chemical industry would be fixed at 32.5% of the intervention price, i.e. on the basis of the 1985/86 intervention price, 17.61 ECU/100 kg compared with 3.88 ECU/100 kg at present. Accordingly, the industrial purchase price of white sugar would be about 40 ECU/100 kg, which would roughly correspond to the price of B sugar, thus enabling the primary objective - an increase in sugar sales on the internal market - to be realized and improving supply conditions for industry.

The European Parliament has not been consulted on this proposal, which, in its view, has therefore no legal validity. It would nevertheless appear to be consistent with previous opinions of Parliament on the provision of raw materials for processing industries at competitive prices. Increased sales of both sugar and isoglucose on the internal market could, moreover, eventually lead to the levy being reduced and so to higher incomes for the producers concerned.

6. THE NEW PROPOSAL

After the Council had failed to reach agreement on the above proposal but had been able to accept an extension of the existing arrangements for a further five years, the Commission submitted a new proposal providing not only for an extension of the present system but also for a method of absorbing the accumulated deficit of 400 m ECU.

At its meeting of 9 and 10 December 1985 the Council agreed in principle to this proposal and all that was needed before making its decision official was Parliament's opinion: Parliament had however not yet been officially informed of the amended proposal.

This procedure was probably considered somewhat too disrespectful towards Parliament and so the Council did then decide to consult Parliament on the amended proposal.

In view of the agreement reached in the Council on this proposal, however, Parliament does not consider that it can give a final opinion and plans to do so at the time when the Commission may possibly submit a new proposal to the Council in two years' time.

Parliament would, however, like to take this opportunity to point out that none of the problems discussed such as the inflexibility of the system, the persistent production surplus and the problem of the developing countries, has been solved. Furthermore, no account is taken of the problem of the non-compensated export refunds which are put at 140 m ECU per annum at present.

ANNEX

MOTION FOR A RESOLUTION

tabled by Mr HAPPART

pursuant to Rule 47 of the Rules of Procedure

on maintaining sugar-beet production

The European Parliament,

A. having regard to the strict system of quotas applied to the sugar-beet sector,

B. whereas the Community price of sugar beet has been frozen since 1983,

C. whereas the fall in world market prices has already led producers to reduce the area under sugar beet by 15.1% from 2 026 000 hectares in 1981 to 1 720 000 hectares in 1985, and a further reduction is to be expected,

1. Considers, in agreement with the opinion expressed by the Commission in September 1980, that the result of the 25% increase in the production levy is likely to be that B sugar will no longer be a viable proposition for producers, even the most efficient ones, so that they would be obliged to grow other crops already in surplus at prices which would lead to severe budgetary imbalances;

2. Considers that the harmful effects of this increase would be aggravated by the continuing freeze imposed on the Community price of sugar beet since 1983 in spite of a substantial increase in production costs and the fact that production is already controlled by the quota system;

3. Requests that steps should not be taken to remedy the deficit of 400 million ECU without at the same time making up fully for the delay in adjusting the price of sugar beet;

4. Calls for greater account to be taken of rising production costs in the sugar-beet sector when annual prices are being fixed;

5. Calls for an end to the present distortion of competition which penalizes sugar and benefits isoglucose and for measures to be taken to guarantee absolute equality between sugar and starch;

6. Considers that a genuine bioenergy policy should be launched so that sugar surpluses may be used to produce ethanol;

7. Instructs its President to forward this resolution to the Commission of the European Communities and the Council of Ministers.

<u>OPINION OF THE COMMITTEE ON BUDGETS</u>

Letter from the chairman of the committee to Mr TOLMAN, chairman of the Committee on Agriculture, Fisheries and Food

Brussels, 27 January 1986

<u>Subject</u>: Amendment to the proposal for a Council regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector (COM(85) 754 final - Doc. C 2-150/85)

Dear Mr TOLMAN,

The Committee on Budgets considered the abovementioned proposal at its meeting of 22 January 1986.

It noted that the situation on the world sugar market requires that a system of production quotas be maintained. In view of the prospects for improving conditions on the Community market after enlargement, and the possibility of new outlets in the chemical industry, it endorsed the Commission's proposal to maintain overall quotas at their current level.

The Committee on Budgets pointed out that the principle of budget neutrality in respect of the common organization of the markets in the sugar sector had to be safeguarded and consequently endorsed the Commission's proposal to introduce an 'elimination' levy with a view to offsetting the deficit recorded for the preceding period of validity.

The Committee on Budgets noted that, given the latest assumptions on refund rates, it should be possible to ensure budget neutrality in respect of the common organization of the markets in the sugar sector, and endorsed the principle of conducting a review of the budgetary position before the end of the 1988/89 marketing year.

Yours sincerely,

Jean-Pierre COT

Present: Mr COT, chairman; Mr ABENS, Mr BARON CRESPO, Mr CHAMBEIRON, Mr CHRISTODOULOU, Mr COLOM I NAVAL, Mr CURRY, Mr ELLES, Mr FICH, Mr HERMAN (deputizing for Mr DEPREZ), Mrs HOFF, Mr LANGES, Mr LOUWES, Mr LUCAS PIRES, Mr PAPAKIRIAZIS (deputizing for Mr PAPOUTSIS), Mr PASTY, Mr POETSCHKI (deputizing for Mr SCHON), Mr ROSA, Mr TOMLINSON and Mr VON DER VRING

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Development and Cooperation

Draftsman: Mr M. McGOWAN

On 16 October 1985 the Committee on Development and Cooperation appointed Mr McGOWAN draftsman of the opinion.

The Committee considered the draft opinion at its meeting of 19 November 1985. It adopted the draft opinion on 21 November 1985 by 14 votes to 4 with no abstentions.

The following took part in the vote: Mrs Focke, chairman; Mr McGowan, draftsman; Mr Balfe, Mrs Cinciari Rodano, Mr Cohen, Mrs De Backer-van-Ocken, Mr Gerontopoulos (deputizing for Mr Luster), Mr Kuijpers, Mrs Pery, Mr Price (deputizing for Mr de Courcy Ling), Mrs Rabbethge, Mrs Schmit, Mrs Simons, Mr Simpson, Mr Trivelli, Mr Ulburghs (deputizing for Mr Pannella), Mr Verbeek and Mr Wedekind (deputizing for Mr Pirkl).

The Committee on Development and Cooperation expresses the wish that the Committee on Agriculture, Fisheries and Food takes into account the following opinion in drawing up its report on the proposal for a Council Regulation (EEC) amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector (COM(85) 433 final).

1. On a number of occasions in the past both the European Parliament and the ACP-EEC Joint Committee and Consultative Assembly have been obliged to consider the implication of, on the one hand, the enormous surpluses of beet sugar produced within the EEC and, on the other hand, our administrative obligations according to the International Sugar Agreement and our legal commitments in relation to our ACP partners in the Lome Convention and to other countries, notably India.

2. This is the second time which the Committee on Development and Cooperation has had to deliver an opinion on the common organization of markets in the sugar sector. The first time was in February 1981, when the original regulation was published[1]

3. Amongst the conclusions drawn up by the draftsman for an opinion in 1981 were the following:

- that the EEC should join at the earliest opportunity the International Sugar Agreement in order to contribute to ensure greater stability in the world market price for sugar;

- that the EEC should maintain to the full the provisions contained in Protocol No.7 (Sugar) of the Lome Convention;

- that the period of duration of the original regulation should be used to assist the cane sugar producers to diversify the uses to which cane sugar may be put particularly in the industrial and chemical sectors.

4. Since then, relatively little progress has been made in assisting the sugar producing countries of the developing world. On the contrary, Community sugar production has continued at a high level, surpluses have been maintained and the free market sugar price has slumped to less than three cents (US) per

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[1] Draftsman for opinion : Mr P. VERGES (PE 70.628)

pound. Recently there has been a rise in the sugar price on the world market, mainly because many farmers in developing countries had to stop production as a result of dumping practices of the United States and the European Community. According to the Director-General of the F.A.O., this **is the** lowest price level in real terms this century. Meanwhile, Community sugar producers continue to receive guaranteed fixed prices on most of their output at escalating costs for the Community budget. Compounding such difficulties, the international market for sugar, according to the F.A.O., is projected to contract further by 1990.

5. At the same time, according to the Commission in its current proposal for a Council regulation:-

- the cost price for the most competitive producers is approximately 12 cents (US) per pound,
- the Community's intervention price is equivalent to 14.79 cents (US) per pound. This is five times world market price and therefore unacceptable from a development point of view.

6. In a report published early in 1984, UNCTAD showed that the overall self-sufficiency ratio for sugar within the EEC had by 1981 climbed to 130 per cent. At this time, EEC exports were described as 'contributing to world instability and declines in sugar prices to the detriment of many developing country exporters'[2]. The new policy developed in 1981 by the Commission aimed to curb such excesses by introducing production levies to encourage producer responsibility. However, as the UNCTAD report states, the new policy amounted to one step forward and two steps back as the effects of the imposition of a co-responsibility levy were offset by increases in the intervention price.

7. In the Committee on Development and Cooperation's own critique of the system, emphasis was placed on the need to control excess output by a more realistic price policy rather than by quota arrangements which the Commission at the time admitted were to be transitional.[3] Yet the proposed amendment to

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[2]Ref: UNCTAD Studies in the processing, marketing and distribution of commodities 1984, para. 56

[3]The quota system regulates prices for given quantities of production as follows:

the 1981 policy, with which this opinion is directly concerned, says that "discontinuing the production-quota arrangements must be ruled out at this stage". The Commission goes on to say that they should be renewed for a further five marketing years

8. The Committee on Development and Cooperation recognises that the Commission proposes a raising of production levies (from 2% to 2.5% on the basic A quota levy and from 37.5% to 47% on the B quota levy) and welcomes this in the hope that it will act as an incentive to reduce existing surpluses as well as reducing the cost to the EEC budget over a five-year period.

9. The Committee on Development and Cooperation would however point out that the quota system involving prices which vary on the basis of fixed quantities is having disastrous effects on world sugar prices. In particular, giving industry access to the multiple-price system has allowed sugar exports to the world market at dumping prices. The Committee on Development and Cooperation therefore asks the Commission and Council to remove any possibility of using this system from the new arrangements.

In more general terms, the committee believes that a restrictive prices policy is a vital component in any reduction of surplus output.

10. But it would seem reasonable to suggest that disincentives for European sugar production, bearing in mind consumption, refining capacity, and the size of the surpluses, are still inadequate, even bearing in mind the provisions of Article 12 of the 1981 regulation concerning minimum stocks.

11. Sugar beet production in the EEC only began to take off when guaranteed prices were introduced. Although some conversion has taken place in recent years thus favouring the planting of other crops, the current Commission proposals are not designed to have any real impact on this fundamental aspect of the world sugar equation which has endangered the livelihood of many of the world's poorest families.

Quota A: basic quota - sum = approx. EC consumption -- price guaranteed
Quota B: percentage of A quota - subject to production levy
Quota C: excess above A + B, sold at producers' risk on world market

12. In the EEC and the US an increasing amount of sugar is produced from maize. Production from other sources and production of sugar substitutes (for example, aspartaan for, among other things, non-alcoholic beverages), will lead to lower prices. In the EEC, glucose already has a 15% market share and iso-glucose 3%. The EC has decided to fix limited production quotas for these products.

13. However, taking into account the enlargement of the the European Community, the Commission is at least opposed to any increase in current production quotas. Nevertheless it fails to take into account the repeated demands of the Committee on Development and Cooperation of the European Parliament, of the ACP-EEC Consultative Assembly, and of the new ACP-EEC Joint Assembly established under Lome III.

14. These were reiterated at the first meeting of the ACP-EEC Joint Assembly in September 1985 when, in particular, reference was made in the following terms: "that the restoration of balance on the world sugar market is only attainable if the European Community and other sugar producing industrialised nations reduce the volume of their production".[4] The resolution went on to call for substantial reductions in the internal EEC sugar quotas. This demand has not been met by the Commision in these new proposals.

15. Use of sugar for new products can possibly have positive effects on sugar markets. Nevertheless, new production processes will be centralised in industrialised countries.

16. Again, as far as enlargement is concerned (cf Table 3 of the Commission's proposals), the assumptions made in calculating the level of surplus production lack substantative foundation. They also ignore the current negotiations between Portugal, the ACP States and the European Community which are taking place on the level of ACP sugar imports to Portugal before Portugal becomes a signatory to Lome III.

17. It follows from this that the statement made by the Commission according to which A and B sugar production surplus will begin to fall in 1986/87 by 16%, cannot be adequately justified.

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[4] See paragraphs 81-88 of the Resolution on the Third ACP-EEC Convention - Prospects and Constraints AP-68/Ann. XIV / Doc. ACP-EEC 0015/A/85

18. No modification is proposed to Title 4 of the 1981 Regulation concerning the preferential import regime, which applies directly to ACP producers and India, even though the Lome III Convention has been signed. It is to be hoped that concerning the enlargement of the EEC, following the transitional period, the appropriate review clause may be invoked in order to increase ACP cane sugar imports into Portugal at a mutually acceptable level which is higher than the 70 000 tonnes presently agreed between Portugal, the EEC and ACP producers.

19. Concerning the prospects for the use of sugar in the chemical industry, the Committee on Development and Cooperation considers that this could indeed provide a valuable outlet for surplus sugar. The Commission and the Council consider that, to ensure regular supplies, quota sugar at lower prices should be made available to the industry, largely assisted by the establishment of "production refunds". Yet these proposals do not appear in the Commission amendments to the 1981 regulation.

20. Proposes that the existing B quota be abolished in five equal stages over a period of five years.

21. In general, the Commission's proposals could contribute to a reduction in the beet sugar surplus within the Community. However, such a policy must be pursued in a more vigorous manner if the current imbalances in the world sugar market are to be redressed to the benefit of the cane sugar producers of the developing countries which very often have little choice but to continue to grow cane sugar whatever the price.

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Committee on Development
and Cooperation

Strasbourg,

16.1.86 -01102

Mr T. TOLMAN, MEP
Chairman of the
Committee on Agriculture, Fisheries and Food
European Parliament
LUXEMBOURG

PARLEMENT EUROPEEN
17. JAN. 1986
Nº 00920

Dear Mr Tolman,

The revised proposals from the Commission for a Council Regulation amending Regulation (EEC) No. 1785/81 on the common organization of the markets in the sugar sector (COM (85) 754 final were only received by the Committee on Development and Cooperation at the beginning of January. The Committee was therefore unable to consider the revised proposals. However, the Committee on Development and Cooperation had already adopted its opinion on the original proposals on 21 November 1985. In its opinion at this time the Committee on Development and Cooperation emphasised its objective which was that during the period covered by the new Council regulation beet sugar production in the European Community should be reduced.

As a result of my examination of the modified Commission proposals, I confirm and maintain my opinion of 21 November 1985, particularly in so far as we seek the gradual suppression of b quota sugar production. The original Commission proposal, although unsatisfactory, in fact went further than the revised proposal in this direction.

Furthermore, in the new Commission proposal, it is hard to see how the Commission's objective of "budgetary neutrality" can be maintained.

I would also support the view that Spain and Portugal should not be held responsible for financial deficits generated by the system before they joined the Community and that, therefore, they should not participate in reimbursing the negative balance which accrued during the 1981-85 period.

In conclusion therefore, while understanding the severe constraints imposed on the Commission following the Council's deliberations on the proposed regulation, I, as draftsman for the opinion of the Committee on Development and Cooperation, maintain my opposition to the proposed Council regulation.

Yours sincerely,

M. McGOWAN

PE 101.510/fin.

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