

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(78) 267 final

Brussels, 15 June 1978

Request by the Government of Zambia
to accede to Protocol No 3 on ACP sugar annexed to the Convention
of Lomé

(Communication from the Commission to the Council)

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EXPLANATORY MEMORANDUM

The attached recommendation for a Council decision deals with the application by Zambia to become a member of Protocol No 3 on ACP sugar annexed to the ACP-EEC Convention of Lomé. Also attached, in the form of a draft Note Verbale, is a proposed reply to the application which was made on behalf of Zambia by the ACP General Secretariat. This reply constitutes a rejection of the application. The recommendation arises from the application of the Joint Declaration concerning possible requests for participation in Protocol No 3. The text of this Declaration appears in Annex XIII to the Final Act of the Convention of Lomé.

Financial implications

Having regard to its conclusion, this recommendation has no financial implications.

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PROPOSAL FOR A

RECOMMENDATION TO THE COUNCIL

Request by the Government of Zambia to accede to Protocol No 3
on ACP sugar annexed to the Convention of Lomé

(All tonnages in raw value unless otherwise stated)

GENERAL

1. Annex XIII to the Final Act of the Convention of Lomé reads :

"Any request from an ACP State Contracting Party to the Convention not specifically referred to in Protocol No 3 to participate in the provisions of that Protocol shall be examined."

2. There is no express or implied obligation on any Contracting Party to the Convention to agree to a request by one of them to participate in the provisions of Protocol No 3. Moreover, the agreement of all the Parties would be necessary before any such request could be given legal effect. This is because an accession to the Protocol necessitates an amendment of the text.

3. At their meeting in Kampala early last year all the ACP States pledged their support to the requests which were then expected from Zambia and Liberia. A copy of the formal request dated 4 May 1977 made by the ACP Secretariat on behalf of the Government of Zambia is attached (Annex II). (1)
This relates to a Protocol quota of 15 000 tonnes, white value.
No request has so far been received from the Government of Liberia.

4. The Zambian application raises two main questions for the Community :

(a) In the light of its internal sugar situation now and in the foreseeable future, and of other relevant factors, is the Community prepared in principle either :

(1) to increase permanently its existing obligations to import ACP sugar,

or

(2) to agree to the admission of new members to the Protocol without increasing the current total of the Community's import obligations under the Protocol ?

(1) The technical paper referred to in Annex II is not attached to these papers, but it can be made available to Member States on request. /.

- (b) In particular, has Zambia established a net exporting position and, if so, what annual exportable surplus can it reasonably expect to produce and maintain ?

The Community need adopt a formal view on (b) only if its response to either part of (a) is affirmative.

AD QUESTION 4 (a)

Economic considerations

5. Annex III summarises the main features of the present and foreseeable situations in the Community's sugar sector and on the world market.

The following conclusions can be drawn :

- (1) The Community is currently in substantial sugar surplus.
Assuming average yields, its self-sufficiency in sugar is likely to remain significantly above 100 % until at least 1980 when the Community's present sugar production policy expires. To the exportable surplus of Community-produced "quota" sugar (about 1.72 mio tonnes in 1977/78) must be added a further surplus quantity equivalent to imported preferential sugar (about 1.42 mio tonnes annually). The total cost of the export restitutions required in 1977/78 is estimated to be of the order of 650 mio ua, of which about 180 mio ua will come from the production levy on Community producers.
- (2) The world as a whole is also in substantial surplus, with abnormally large stocks exerting a depressive effect on world market price levels. Barring unforeseen crop disasters in major sugar-producing areas of the world, these price levels are likely to remain well below the Community's prices during the 5-year life of the International Sugar Agreement (ISA) which came into force on 1 January 1978. It is therefore probable that in the foreseeable future the Community's exports of its surplus "quota" sugar, together with the re-exports of preferential sugar, will continue to require export restitutions on a substantial scale.
- (3) The ISA restriction on imports from non-members (referred to in Annex III) is now in force. This will affect the opportunities for

Community traders to find export markets for the whole of the Community's exportable surplus; and the larger the importer membership of the ISA the greater this adverse effect on export opportunities will be.

Other considerations

6. The ACP's Note Verbale implies that the Sugar Protocol can be regarded as a means of providing compensatory assistance to the economies of ACP States whose earnings from the exports of other primary products have been reduced. If this principle had been originally intended it would presumably have been reflected in the text of the Convention of Lomé, notably in the provisions relating to STABEX. This is not the case; and since sugar is excluded from the STABEX arrangements it would be difficult to accept that the Sugar Protocol is an extension of those arrangements.

7. Zambia is listed in Annex II to the ISA as a small exporter. This means that if Zambia joined that Agreement, as it is free to do, it could export up to 70 000 tonnes annually to the world free market without any of the quantitative restrictions imposed on the larger exporting members. Zambia would also be exempted from the obligation to maintain any ISA special stocks, and its export outlets would not be affected by the ISA restrictions on imports from non-members.

AD QUESTION 4 (b)

8. In the light of the information available to it (summarised in Annex IV) the Commission believes that it is reasonable to conclude that Zambia has now achieved a net exporting position. Having regard, however, to the foreseeable increase in Zambia's population and per capita consumption in relation to its production capacity and climatic variations it is difficult to assess how much exportable surplus Zambia could be relied upon to produce. The requested quantity of 15 000 tonnes white value (about 16 000 tonnes raw value) appears to be over-optimistic for the reasons given in Annex IV.

DISCUSSION

9. It is understandable that Zambia should wish to broaden its economic base by producing surplus sugar for export. Such diversification would reduce Zambia's dependence on copper exports; and given the present low levels of world market sugar prices Zambia naturally hopes that its sugar exports can attract the much higher price paid under the Sugar Protocol.
10. But that Protocol, despite the anomalous position of Kenya and Surinam (neither of which is a net exporter), was not intended to enable ACP sugar-producing States to develop a preferential sugar export trade. The sole purpose of the Sugar Protocol was to implement the Community's undertaking (as it applied to sugar) in part III of Protocol No 22 annexed to the Act of Accession (see Annex V).
11. In the light of all the foregoing considerations the Commission sees no justification for increasing the Community's existing import obligations under the Sugar Protocol, thereby increasing either the quantity of Community surplus sugar for which export markets cannot be found or the cost of disposing of the total surplus on the world free market.

RECOMMENDATION

12. The Commission accordingly recommends that the Council should reply to the Zambian request in the terms of the attached Note Verbale (Annex I)

ANNEXES

- I. Draft of Note Verbale from the Council to the General Secretariat of the ACP. (See also the appendix to this Annex.)
- II. Copy of the ACP General Secretariat's Note Verbale of 4 May 1977. (This was supplied only in English).
- III. Situation in the Community's sugar sector and on the world market.
- IV. Notes on the Zambian sugar industry.
- V. Part III of Protocol No 22 annexed to the Act of Accession.

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DRAFT OF COMMUNITY REPLY TO NOTE VERBALE OF 4 MAY 1977 FROM THE GENERAL SECRETARIAT OF THE ACP GROUP OF STATES

NOTE VERBALE

Following receipt of the Note Verbale (reference L. 1698/77/ACP) of 4 May 1977 from the General Secretariat of the ACP Group of States the European Economic Community, in accordance with Annex XIII to the Final Act of the Convention of Lomé, proceeded to examine the request by the Government of Zambia to accede to Protocol No 3 on ACP sugar annexed to the Convention.

The Community has now completed this examination. In doing so it has taken into account all relevant factors, including those set out in the General Secretariat's Note Verbale and the enclosure thereto and those relating to the present and foreseeable situations in the Community's sugar sector and on the world market.

As the General Secretariat may know, the Community itself is faced with a difficult situation in which its sugar consumption has fallen substantially and shows no signs of recovering to previous levels. By contrast, the Community's production of sugar for internal use has risen to levels which currently exceed annual requirements by about 1.72 million tonnes (raw value). The result is that the Community has a large surplus of its own sugar, to which must be added a further 1.42 million tonnes (raw value) of sugar equivalent to its imports of preferential sugar, all of which are surplus to the Community's requirements, and it is probable that the Community will be unable to find export markets for the whole of this surplus quantity. Moreover, because world market price levels are much lower than the Community's internal prices the restitutions necessary to enable exports to take place of sugar for which markets can be found present a substantial cost to Community funds and to Community producers.

It is the Community's hope that the 1977 International Sugar Agreement will be effective in raising world market prices to levels which will be more remunerative to exporting countries. This could be helpful to Zambia if and when it exports to the world market. But the present indications are that the surplus situations in the Community and on the world market are likely to persist for some time to come. This means that the Community will continue to be faced with the risk of insufficient world market outlets for all its surplus sugar and a heavy financial burden in export restitutions.

The Community fully appreciates the reasons underlying Zambia's desire to accede to Protocol No 3. But in the light of the situation outlined above, the Community has reluctantly concluded that it is not in a position to increase its existing import obligations under that Protocol. (Complimentary close).

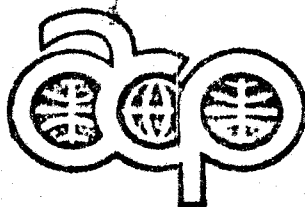
Brussels,

1978

It is for consideration whether the following should be added as the final paragraph of the Note Verbale :

Nevertheless, if within the current total quantity of sugar covered by the Sugar Protocol the ACP states concerned are willing, as a group, to adjust their individual agreed quantities in order to admit Zambia to membership the Community would consider sympathetically any proposal on these lines which the ACP states wish to make.

Groupe des états d'Afrique
des Caraïbes et du Pacifique
(Groupe ACP)



African, Caribbean and
Pacific Group of States
(ACP Group)

Jb

L.1698/77/ACP

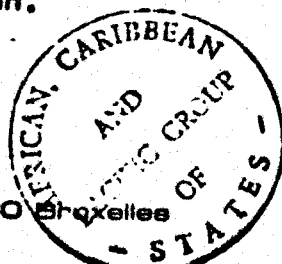
NOTE VERBALE

The General Secretariat of the ACP Group of States takes pleasure in renewing its acquaintances with the Community and submits herewith an application by the Government of Zambia for a quota of 15.000 tonnes under Protocol 3 of the Lomé Convention.

It will be recalled that at the second meeting of the ACP-EEC Council of Ministers in Fiji, the ACP through its spokesman on sugar, officially notified the Community of its intention on behalf of Zambia to seek an export quota of 15.000 tonnes of sugar to the Community. It is this application which is hereby formally submitted to the Community under the undertaking given by the Community at the Council Meeting to examine same in keeping with the Declaration in Annex N°XIII of the Convention.

In view of the well-known difficulties being faced by the Zambian economy arising from the relatively weak position of copper on the international market, the ACP would appreciate an urgent and sympathetic response by the Community. A copy of the technical paper submitted by Zambia is attached as supporting documentation for the application.

The General Secretariat of the ACP Group of States seizes this opportunity to renew to the Community the assurance of its highest consideration.



Brussels, 4 May 1977.

SITUATION IN THE COMMUNITY'S SUGAR SECTOR AND ON THE WORLD MARKET

(All tonnages in raw value)

The Community's sugar sector

1. Appendix A shows the evolution of Community production and consumption over the last decade. Except for the deficit in the years 1973/74 and 1974/75 (caused partly by a shortfall in supplies under the Commonwealth Sugar Agreement) the Communities of the Six and of the Nine have been in surplus. In other words, Community production of sugar subject to a Community price guarantee has exceeded human consumption in 8 out of the last 10 years.
2. Prior to the deficit situation, Community consumption had been rising steadily. It is estimated that if this trend had continued consumption in 1977/78 would have been of the order of 11.5 mio tonnes. In fact human consumption in 1976/77 was 9.7 mio tonnes, and the estimate for 1977/78 is only slightly higher at about 10.0 mio tonnes. Various suggestions have been put forward to explain this fall in consumption. But whatever the true reasons may be, the fact is that there are no indications now or in the immediate future that consumption will quickly rise to its former levels.

The world market situation

3. The world as a whole is in substantial surplus. Appendix B shows that:
 - the estimated final stocks for 1977/78 will be nearly 40 % of annual consumption;
 - the increase in consumption over the 6-year period 1972/73 to 1977/78 was about 9.6 % whereas production increased by 19.6 % over the same period.

The main result of this situation is that world market prices are very low relative to production costs. In consequence the Community's export restitutions are correspondingly high (currently about 200 ua/tonne, raw value).

The 1977 International Sugar Agreement (ISA)

4. The price range in this Agreement is 11-21 US cents/lb f.o.b. (roughly 197 - 376 ua/tonne). Because the current world market price is below the bottom of this range the quantities which exporting ISA members may sell on the free market are restricted to 81.5 % of their basic export tonnages laid down in the Agreement.

5. Also in force are restrictions on the quantities which ISA members may individually import from non-members (including the EEC) as a group. At present this restriction is 55 % of the average annual quantity imported from such non-members in a given base period. Since the Community exports significant quantities of sugar to over 50 countries it appears inevitable that, sooner or later, this restriction will prejudice the ability of Community traders to find free market outlets for the whole of the Community's exportable surplus. The extent to which this happens will depend inter alia on which, and how many, of the countries which normally import Community sugar will join the Agreement. If and when the world price is above 11 cents/lb the restriction is eased to 75 %, and it remains at that level unless and until the world price rises above the upper limit of the ISA range, i.e. 21 cents/lb. Thus the probability is that imports from non-ISA members will be subject to some restriction, either 55 % or 75 %, throughout the whole life of the ISA. On this basis the Community may expect to encounter some difficulty in exporting its own surplus and the quantity equivalent to its preferential imports.

EEC PRODUCTION AND CONSUMPTION OF SUGAR

(all tonnages in raw value)

I	II	III	IV	V	VI	VII
Year	Area of beets in EEC - 9 (1000 ha)	Yields/ha in EEC - 9 (tonnes)	Total production of quota sugar (1) (1000 tonnes)	Human consumption (1000 tonnes)	Self-sufficiency (IV - V)	"C" sugar production (2) (1000 tonnes)
1968/69	1,413	5,91	<u>EEC-6:</u> 7,379	<u>EEC-6:</u> 6,447	114.5	<u>EEC-6:</u> 37
1969/70	1,402	6,34	7,995	6,592	121.3	86
1970/71	1,397	6,16	7,533	7,084	106.3	133
1971/72	1,416	7,13	8,107	6,875	117.9	680
1972/73	1,471	6,33	8,079	7,013	115.2	235
1973/74	1,574	6,32	<u>EEC-9:</u> 9,615	<u>EEC-9:</u> 11,211	85.8	728
1974/75	1,572	5,66	9,295	10,299	90.3	21
1975/76	1,838	5,51	10,441	10,341	100.1	105
1976/77	1,871	5,60	10,707	9,690	110.5	166
1977/78	1,767	6,83(e)	11,701(e)	10,046(e)	116.5(e)	851

(1) Including DOM cane sugar.

(2) All "C" sugar must be exported without export restitutions. It is additional to quota production.

(e) Estimate

WORLD PRODUCTION AND CONSUMPTION OF SUGAR

(Million tonnes, raw value)

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78
1. Opening stocks	17.1	16.1	15.9	17.3	20.6	26.0
2. Production	77.4	80.1	79.6	82.8	88.6	92.6
3. Total availability (1 + 2)	94.5	96.2	95.5	100.1	109.2	108.6 ⁽¹⁾
4. Consumption	78.0	80.9	77.7	79.9	82.9	85.5 ⁽¹⁾
5. Final stocks	16.0	15.8	17.3	20.4	26.0	33.1
6. Final stocks as % of consumption	20.5	19.5	22.3	25.5	31.4	38.7

Source: F.O. LICHT

(1) Commission estimate

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NOTES ON SUGAR PRODUCTION AND CONSUMPTION IN ZAMBIA

(All tonnages in raw value unless otherwise stated)

1. These notes are based mainly on information obtained from:
 - the technical paper accompanying the Note Verbale (L 1698/77 ACP) of 4 May 1977 from the General Secretariat of the ACP Group of States;
 - a discussion held in Brussels on 21 November 1977 between officials of DG VI and DG VIII and representatives of the Zambian sugar industry and of the Zambian Ministries of Commerce and Finance;
 - data published by the International Sugar Organisation.

Production

2. The sole source of Zambian raw sugar is the mill at Nakambala, which started commercial operations in 1968. An expansion programme completed in November 1977 increased the total annual production capacity of this mill to about 158 000 tonnes, and it has been stated that a further increase to about 210 000 tonnes is possible after 1980. Refining of the raw sugar is carried out at a refinery at Nakambala during the crop period, and throughout the year at a refinery at Ndola. The mill and the refineries are gas-powered.
3. Technical expertise in cane cultivation, milling, refining and marketing are available to the Zambian Sugar Company Ltd under a consultancy agreement with a European company. The cane crop is irrigated and is therefore less weather-dependent than might otherwise be the case. Nevertheless, yields can vary $\pm 10\%$ of the mean; and at current levels of production a poor crop could be up to 14.000 tonnes below average. Cane husbandry and factory efficiency are reputedly good.

The Zambian sugar balance

4. In Zambia sugar is regarded not as a luxury but as a basic foodstuff, and consumption is relatively price inelastic. In November 1977 the retail price of refined sugar was roughly equivalent to 55 ua/100 kg which is high compared with Community price levels. 30 % of refinery output goes to the food manufacturing industry.
5. The population (about 5.3 mio in 1977) is increasing by about 3.3 % annually, giving a projected population in 1980 of around 5.8 mio.

Per capita consumption is also increasing but it is difficult to determine slope of the future trend. Historically, the annual consumption increase has averaged just over 5 %. According to estimates by the Zambian representatives, however, the annual increase in the next few years will be around 8 %. In any case, it seems probable that within the next five or six years the increases in population and per capita consumption will combine to produce an internal demand in excess of Zambia's present production capacity. Previous production and consumption figures have been as follows:

1,000 tonnes

Year	Production	Consumption	Imports	Exports
1969	30.4	48.0	20.3	0
1970	40.1	50.3	19.7	0
1971	41.5	63.1	16.0	0
1972	51.1	67.4	14.3	0
1973	58.2	74.7	5.4	0
1974	64.8	86.0	11.8	0
1975	85.1	73.9	0	0
1976	80.4	81.9	0	0

6. As to the future situation, estimates of production and consumption have been provided by the Zambian authorities. These are given in the Appendix. The production estimates are based on the assumption that the capacity of the Nakambala mill will be increased to 210 000 tonnes after 1980. At present such an expansion appears to be no more than a possibility and it is not clear whether finance will be available to achieve it. If such expansion does not take place then any export potential Zambia may now have will certainly disappear in the relatively near future. If the expansion does take place then the export potential might be prolonged for a few more years. But the basic situation in the foreseeable future appears to be one in which Zambia's consumption will rise to match production capacity.
7. As to what Zambia's export potential could be - given that a production of 210 000 tonnes is feasible soon after 1980 - the Commission takes the view that the figure of 15,000 (white value) is too near the upper limit of that potential. A much lower figure would be more realistic. But any estimate is subject to reservations concerning the production/consumption ratio.

Appendix to
ANNEX IV

FUT SUGAR PRODUCTION AND CONSUMPTION IN ZAMBIA

Estimates by the Zambian authorities

1,000 tonnes

I Year	II Production	III Consumption	IV Surplus (II-III)	V Surplus (in white value)
978/79	137	116	21	19.3
979/80	147	125	22	20.2
980/81	152	136	16	14.7
981/82	165	147	18	16.6
982/83	176	157	19	17.5

EXTRACT FROM PROTOCOL No 22ANNEXED TO THE ACT OF ACCESSION, 1972

" III

The Community will have as its firm purpose the safeguarding of the interests of all the countries referred to in this Protocol whose economies depend to a considerable extent on the export of primary products, and particularly of sugar.

The question of sugar will be settled within this framework, bearing in mind with regard to exports of sugar the importance of this product for the economies of several of these countries and of the Commonwealth countries in particular."

It should be noted that Zambian sugar did not form part of the quantity covered by the Commonwealth Sugar Agreement.
