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GENERAL AGREEMENT ON
TARIFFS AND TRADE

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EUROPEAN COMMUNITIES - REFUNDS ON EXPORTS OF SUGAR

Recourse to Article XXIII:2 by Australia

The following communication, dated 25 September 1978, has been received from the Permanent Mission of Australia, with the request that it be circulated to the contracting parties.

I refer to the request from my authorities in Australia that a meeting of the Council of Representatives be held on 18 October to consider the complaint that subsidy measures applied by the European Communities to exports of sugar are inconsistent with the Communities obligations under the GATT.

My authorities have now asked me to request you to circulate immediately to the contracting parties the attached Communication from the Government of Australia which sets out the details of the Australian complaint. My authorities believe that the circulation of this communication will allow the contracting parties sufficient time to reflect fully on the facts contained therein so that a decision on the setting up of a panel can be made by the Council at its meeting on 18 October. On the basis of the facts contained in the attached Communication my authorities believe that the Council should be able to make a positive response to the request for the establishment of a panel.

COMMUNICATION FROM THE GOVERNMENT OF AUSTRALIA

It is the view of the Australian Government that the subsidy measures applied by the European Communities to their exports of sugar are inconsistent with the EC's obligations under the GATT. Furthermore, the measures have resulted in Community exporters having more than an equitable share of the world free market export trade in sugar - contrary to GATT Article XVI - and have caused serious prejudice to the interests of Australia. In addition, they have adversely affected the world sugar market to the detriment of other members of the General Agreement.

GATT PROVISIONS

Article XVI provides that subsidies on exports of agricultural products should be avoided but, if maintained, they should not be applied in a manner which results in the Contracting Party having more than an equitable share of world export trade in the product concerned.

EEC SUBSIDIES

On the basis of the figures shown in the Attachment (Table IV) it can be seen that the level of maximum subsidy applied by the EC to its exports of sugar increased from 48 UA/TONNE (approximately \$US60 per tonne) in mid-December 1975 to 264.9 UA/tonne (approximately \$US403 per tonne) in mid-July 1978 (an increase of 452 per cent or 577 per cent in U.S. dollar terms). During this period the world price of sugar, as represented by the mid-month London daily price for raw sugar fell from £stg.162 per tonne to £stg.85 per tonne (a decrease of 48 per cent), while the London daily price for white sugar fell from £stg.177 per tonne to £stg.93.5 per tonne (a decrease of 47 per cent). In fact, on a number of occasions during this period the London daily price for white sugar fell below the price for raw sugar, thus distorting sales opportunities for raw sugar.

Actual expenditure by the EC on sugar export subsidies increased from UA 37.1 million (\$US46M. approximately) in 1975 to UA 362.6 million (\$US.414m. approximately) in 1977 and it is forecast that expenditure on sugar export subsidies by the EC in 1978 will be around UA 675.2 million (\$US.830m. approximately).

WORLD FREE MARKET

Total world free market export trade in sugar has in the seven years to 1975 averaged 16m. tonnes per annum except in 1977 when, for unusual reasons, it reached 21m. tonnes. In 1978 it is expected again to be around 16m. tonnes.

EC EXPORTS

Community free market exports have averaged 1.277m. tonnes over the seven year period to 1975. However, with increased expenditure on export subsidies in late 1975 and in 1976 exports of sugar by the EC rose to 1.869m. tonnes in 1976. Exports further increased to 2.699m. tonnes in 1977 and are expected to be in the vicinity of 3.6m. tonnes for 1978. Community exports rose some 284 per cent between 1975 and 1977. The 1978 export figure is expected to be approximately 182 per cent above the seven year average to 1975.

EC SHARE OF WORLD FREE MARKET

On the basis of the above figures the Community enjoyed an average of 7.8 per cent of the World Free Market for sugar over the seven years up to 1975. Since that time the Community percentage share of World Free Market trade has moved as follows:

1976	11.2 per cent
1977	12.4 per cent
1978	22.4 per cent (estimated minimum)

Thus, with the aid of subsidies, by the end of 1978 the EC will have trebled their percentage share of exports to the World Free Market over and above the average share held in the 1969-75 period.

AUSTRALIAN COMPLAINT

The subsidies applied by the EC to sugar, and the effects of those subsidies on both Australian trade and on international trade, have been the subject of written representation by Australia to the Community from October 27, 1977. Despite these written representations and numerous associated bilateral consultations both at ministerial and official level over more than twelve months it has not been possible to reach a satisfactory resolution of the issues in question.

The increase in sugar exports by the European Community and the EC's increase in market share have far exceeded that which could reasonably be expected to have obtained in the absence of subsidies. The subsidies paid have therefore exceeded that necessary to maintain an equitable share of the World Free Market export trade in sugar. It is significant that there has been a sharp fall in world prices of sugar during this period of excessive subsidisation.

Because of the magnitude of the subsidies, which are continuing to rise, and because of the rapid and continuing expansion of EC exports and the continuing increase in the Community share of the World Free Market export trade in sugar, the Australian Government desires to refer the matter to the Contracting Parties in accordance with the Provisions of Article XXIII:2 for urgent investigation and prompt recommendations or findings to remedy the adverse situation arising from the EC action.

AUSTRALIAN PROPOSAL

Australia requests, therefore, that for this purpose, a panel of three be convened at the earliest convenient date to investigate and report on a complaint by Australia that the system of sugar export subsidies granted or maintained by the EC:

- (a) Is not consistent with the obligations of Member States of the European Communities under the GATT

- (b) Has resulted in Community exporters having more than an equitable share of the world export trade in sugar in the terms of GATT Article XVI
- (c) Causes or threatens serious prejudice to Australian interests
- (d) Nullifies or impairs benefits accruing either directly or indirectly to Australia under the GATT
- (e) Impedes the attainment of the objectives of the General Agreement.

TABLE I - SUGAR - EXPORTS TO THE FREE MARKET: TOTAL AND EEC
('000 TONNES)

<u>YEAR</u>	<u>TOTAL EXPORTS TO FREE MARKET</u>	<u>EEC EXPORTS TO FREE MARKET</u>	<u>EEC AS PERCENT- AGE OF TOTAL</u>
1969	14,074	808	5.7
1970	15,330	1,179	7.7
1971	16,162	1,288	8.0
1972	18,235	1,920	10.5
1973	18,228	1,916	10.5
1974	17,443	1,128	6.5
1975	15,029	702	4.7
1976	16,672	1,869	11.2
1977	21,730	2,699	12.4
1978	16,080 (1)	3,600 (2)	22.4

TABLE II - SUGAR - EXPORTS TO THE FREE MARKET : TOTAL AND EEC
('000 TONNES)

PERIOD	TOTAL EXPORTS TO FREE MARKET	EEC			
		EXPORTS TO FREE MARKET	PERCENTAGE OF TOTAL	INCREASE OVER 7 YEAR AVERAGE (%)	INCREASE OVER PRE-CEDING YEAR (%)
7 YEAR AVERAGE					
1969 - 1975	16,353	1,277	7.8		
1976	16,672	1,869	11.2	46.4	
1977	21,730	2,699	12.4	111.4	44.4
1978	16,080 (1)	3,600 (2)	22.4	181.9	33.4

SOURCE: (TABLES I AND II) ISO STATISTICS

(1) ISO Statistics Committee's estimate

(2) Our conservative estimate based on following:

Total exports to Free Market

January/June 1977 1,061,568 tonnes (raw value)
(ISO statistics)

January/June 1978 1,688,427 tonnes (tel quel mostly white value) sourced from official national statistics but excluding Italy, Denmark and Ireland.

TABLE III - EEC EXPENDITURE ON SUGAR EXPORT SUBSIDIES

YEAR	MILLION UA'S	\$US.M. (1)	PERCENTAGE INCREASE ON 1975
1971	63.1		
1972	69.6		
1973	55.4	68.24	
1974	8.0	9.54	
1975	37.1	46.03	
1976	55.6	62.16	35
1977	362.6	413.78	799
1978 (2)	675.2	830.19	1,704

1. These figures derived as follows:

(a) Conversion rates for EUA (European Unit of Account) to \$US. shown in Table 753 of Eurostat Monthly General Statistics Bulletin for December 1977 for years 1973 to 1977 inclusive.

(b) For forecasts for 1978, conversion rate of EUA to \$US. at 7 September 1978 using \$US.1.22955.

2. Forecast

TABLE IVLONDON DAILY PRICE (LDP)
AND THE EC EXPORT SUBSIDIES

DATE (MID-MONTH)	LDP (RAW) (POUND STG/ TONNE - CIF UK IN BULK)	LDP (WHITE) (POUND STG/TONNE - FOB PLUS S EURO- PEAN PORTS IN BAGS)	EC MAXIMUM EXPORT SUBSIDIES UNDER TENDER SYSTEM - WHITE SUGAR	
			(UA/TONNE)	(\$US PER TONNE) (APPROX)
12/75	162.0	177.0	48.0	59.5
1/76	168.0	187.0	47.5	58.9
2/76	159.0	178.0	51.0	63.2
3/76	184.0	196.0	39.0	48.4
4/76	178.0	182.0	65.1	81.6
5/76	188.0	190.0	49.8	62.4
6/76	182.0	197.0	56.4	69.9
7/76	187.0	211.0	39.9	49.5
8.76	143.0	180.0	89.8	112.5
9/76	118.0	167.0	128.8	162.8
10/76	125.0	169.0	130.9	170.1
11/76	122.0	157.0	163.8	215.7
12/76	116.0	146.5	169.8	225.7
1/77	121.0	143.0	166.9	226.6
2/77	127.0	141.0	176.5	232.3
3/77	126.0	136.0	188.4	250.5
4/77	139.0	139.0	185.9	247.2
5/77	127.0	138.0	189.7	255.9
6/77	113.0	128.0	226.1	305.0
7/77	103.0	115.0	239.0	325.8
8/77	108.0	100.0	242.8	330.2
9/77	106.0	102.0	237.0	322.3
10/77	99.0	106.0	232.0	321.3
11/77	92.0	108.0	225.1	311.8
12/77	107.0	114.5	219.9	314.3
1/78	112.0	113.0	217.8	320.9
2/78	106.0	118.5	217.8	324.7
3/78	97.0	101.0	251.9	385.6
4/78	102.0	105.5	246.9	383.3
5/78	98.5	105.0	254.0	379.5
6/78	98.5	111.0	251.7	378.6

TABLE IV (CONT)

DATE (MID-MONTH)	LDP (RAW) (POUND STG/ TONNE - CIF UK IN BULK)	LDP (WHITE) (POUND STG/TONNE - FOB PLUS S EURO- PEAN PORTS IN BAGS)	EX MAXIMUM EXPORT SUBSIDIE UNDER TENDER SYSTEM - WHITE SUGAR	
			(UA/TONNE)	(\$US TON (APPF
7/78	85.0	93.5	264.9	402
8/78	92.0	103.0	255.1	403.
9/78	104.0	111.0	248.4	389.

NOTE:

- (1) For period December 1975 to January 1977 inclusive, the London Daily Price is in £stg/long ton
- (2) Prior to December 1975 exports were subject to a levy i.e. world prices in excess of guaranteed prices.

SOURCES:

- (1) International Sugar Organisation
- (2) F.O. Licht's "International Sugar Report", various issues
- (3) C. Czarnikow Ltd "Sugar Review", various issues.