

RESTRICTED

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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 Brazil

The following communication, dated 10 November 1978, has been received from the permanent representative of Brazil, with the request that it be circulated to the contracting parties.

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I have the honour to inform you that Brazil has held bilateral consultations with the European Communities, under Article XXIII:1 of GATT, on the question of Community refunds on exports of sugar. I regret to inform you that the said consultations did not result in agreement between the two parties.

Consequently, Brazil hereby wishes to invoke procedures under Article XXIII:2 of GATT, and requests that a panel be established by the CONTRACTING PARTIES to examine the matter. I furthermore request that an item be included in the agenda for the forthcoming meeting of the Council, on 14 November, to consider the Brazilian request for a panel.

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### COMMUNICATION FROM THE GOVERNMENT OF BRAZIL

The Brazilian Government is of the view that the subsidies on sugar exports granted by the European Communities have allowed the EEC to obtain a more than equitable share of the world export trade in sugar and are, therefore, inconsistent with the EEC's obligations under GATT, specifically as regards Article XVI:1 and 3. Such subsidies have negatively affected the world sugar market, causing serious prejudice to the interests of Brazil and other sugar-producing members of the GATT.

The level of the "restitutions" paid by the EEC to its sugar exporters has grown in proportion to the size of the Communities' exportable availabilities in the last few years. During the years 1972 and 1973 the EEC's subsidies averaged, respectively, 36 and 29 UA/tonne, representing no more than 16 per cent of the intervention price. After an interruption of more than a year, when world prices

were above EEC guaranteed prices, export subsidies were reinstated at the end of 1975, fluctuating between 40 and 65 UA/tonne until July 1976. The tenders for the 1976/77 campaign opened with a subsidy of 104.20 UA/tonne, reaching 177.50 UA/tonne in December. The subsidy escalation continued in 1978, with the record level of 264.93 UA/tonne being reached on 12 July.

During the period December 1975-July 1978, as the subsidy rose by a factor of 5.5 in terms of units of account, the London daily price for raw sugar fell from £162 per tonne to £85 per tonne, a decrease paralleled by the price for white sugar.

Given the high support prices maintained by the EEC, the level of restitutions in the last two years has been consistently above the international price of sugar, thus characterizing an extremely high level of subsidization. Total outlays by the Communities on sugar export subsidies, reflecting both the increase in export restitutions and a larger volume of exports, rose from some US\$46 million in 1975 to US\$414 million in 1977, and should exceed US\$800 million in 1978 - an amount far in excess of the expected export earnings of any sugar exporting country in the current year.

Sugar exports to the free market have averaged 16.4 million tonnes per annum in the period 1969-1976; in 1977, due to exceptional circumstances, such exports reached 21.7 million tonnes, but are expected to be in the order of 16.1 million tonnes in 1978.

EEC sugar exports averaged 1.3 million tonnes from 1969 to 1975. As a result of the pricing policies and subsidy practices adopted by the Communities, such exports rose to 1.9 million tonnes in 1976, and 2.7 million tonnes in 1977, and are expected to reach some 3.6 million tonnes in 1978. The average for the last three years, therefore, shall be more than twice the average for the period 1969-1975.

Until 1976, the EEC was a net importer of sugar, with average net imports of 0.9 million tonnes in the 1970-1975 period. In 1977 the EEC became a net exporter of 1 million tonnes, and is expected to have net exports in the vicinity of 1.9 million tonnes in 1978. Even though in 1976 the EEC was still a net importer of sugar, net exports for the period 1976-1978 shall average some 0.9 million tonnes, thus indicating a complete reversal of the EEC position when compared with the performance for the years 1970-1975.

The share of the EEC in the world free market for sugar was, on average, 7.7 per cent during the period 1969-1975. As a result of the export policies followed since that time, this share rose to 11.2 and 12.4 respectively, in 1976 and 1977, and is expected to exceed 22 per cent in the current year - a percentage that will place the EEC, by far, as the largest exporter of

sugar to the free market. In the period 1976-1978, the EEC should have a share of 15.3 per cent of the free market, that is, practically twice the share the Communities occupied in the years 1969-1975. Similar results are obtained if, instead of using figures relating to net exports to the free market, gross world exports are employed, since the amount of sugar traded under the existing special arrangements has not shown substantial variations during the relevant period.

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In brief, the sharp increase in EEC's sugar exports was made possible by the use of substantial subsidies, which, in the last two years, have consistently exceeded the international prices of sugar. The subsidies thus granted have allowed the EEC to obtain a more than equitable share of the world sugar trade, to the detriment of Brazil and all other contracting parties which are exporters of sugar. In so doing, the EEC has caused serious prejudice to the interests of such contracting parties and hampered current efforts to stabilize the world market by means of the International Sugar Agreement of 1977.

In view of the above, the Brazilian Government wishes to refer the matter to the CONTRACTING PARTIES pursuant to Article XXIII:2 for urgent investigation and prompt recommendations.