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EUROPEAN COMMUNITIES - REFUNDS
ON EXPORTS OF SUGAR

Communication by Australia on the situation regarding
the EEC's system of subsidization of sugar exports

The Australian mission has forwarded to the secretariat the following communication, dated 8 September 1981, with the request that it be circulated to contracting parties.

1. The report of the panel on Australia's complaint (L/4833), which was adopted by the GATT Council on 6 November 1979, concluded inter alia :

. that the Community's system for granting refunds on sugar exports and its application had contributed to depress world sugar prices in recent years, thereby causing serious prejudice to Australia;

. that the Community's system did not comprise any pre-established effective limitations in respect of either production, price or the amounts of export refunds and constituted a permanent source of uncertainty in world sugar markets and therefore a threat of prejudice in terms of Article XVI:I;

. that neither the Community's exportable surpluses of sugar entitled to export refunds nor the amount of refund granted had been reduced or limited. .

2. The EEC representative outlined the Commission's proposals for a new sugar regime at the Working Party which was established last November pursuant to the panel's findings and the EEC's obligations under Article XVI:I to discuss with the CONTRACTING PARTIES the possibility of limiting the subsidisation. After analysing this proposal, Australia and most other participants in the Working Party concluded that the EEC had advanced no meaningful proposals to change its system in order to limit production and export subsidies or to remove or limit the threat of prejudice to world sugar trade. It was therefore concluded that such a regime would remain open-ended in respect of both production and subsidies available, and consequently would remain a source of uncertainty in world sugar markets and would continue to constitute a threat of prejudice in terms of Article XVI:I (see paragraph 42 of the Working Party Report, L/5113).

3. Now that the new EEC sugar regime has entered into force from 1 July 1981, Australia has reexamined it, as well as the EEC's 1981/82 sugar intervention prices which were notified to the GATT CONTRACTING PARTIES (L/5175) pursuant to the decision taken by the Council at its meeting in March 1981 (C/M/146). Australia's analysis of the key aspects of the regime is attached to this note. In summary, it is clear that, as was concluded in the Working Party, the new regime will not effectively limit either production, price or the amounts of export refunds and will therefore not remove or limit the threat of prejudice to world trade.

4. This analysis has been confirmed by a number of recent developments in relation to the EEC's production and exports of sugar, its export subsidies and world sugar prices. These developments have occurred at a time when the key elements of the EEC's new regime, including the "co-responsibility levy" were widely known in the EEC and world sugar circles and when the introduction of this regime was imminent. In particular:

. Despite falling world prices for sugar and knowledge that the introduction of the co-responsibility levy was imminent, EEC farmers expanded beet plantings by 10 per cent across-the-board this year.

. The EEC sugar crop is estimated to reach a record 15 million tonnes in raw value terms in 1981/82. This is 17 per cent and 13 per cent, respectively, higher than its production levels in 1978 and 1979, the years on which the panel's reports were based (Greece would account for only 2-1/2 per cent of the increase).

. The EEC's total sugar export availability has been estimated to reach some 6 million tonnes in raw value terms in 1981/82. This is 67 per cent higher than the 3.6 million tonnes exported in both 1978 and 1979. (Although

Greece is expected to have a near record crop, it will not contribute to this increase as its production and consumption are expected to be roughly in balance).

The EEC's total export availability for 1981/82 represents a share of around 30 per cent of estimated world free market exports compared to 18 per cent in 1978 and 1979. On the basis of total world trade, the EEC's share of 14 per cent in 1978 and 1979 would increase to over 20 per cent.

If A and B quotas are filled in 1981/82, as seems likely, the EEC would have an export availability entitled to subsidy of some 3.7 million tonnes in raw value terms. This is some 37 per cent higher than the 2.7 million tonnes subsidised in 1978.

The EEC recommenced subsidising sugar exports in April this year and since then 1.7 million tonnes have been authorised for export with expenditure of some 261 million ECUs on export subsidies.

At its most recent tender (2 September), the EEC subsidy was set at 279.99 ECU/tonne. This compares with average rates of subsidy of 236 ECU/tonne and 276 ECU/tonne in 1978 and 1979, respectively. The subsidy element represents 60 per cent of the EEC intervention price and is greater than the current world price.

If world prices remain at current levels Australia estimates that the EEC will expend 950 million ECUs to subsidise sugar from its 1981/82 crop. This compares with 639 million ECUs in 1978 and 685 million ECUs in 1979. The total amount expended on subsidies will have increased by some 40 per cent.

There is ample evidence that the EEC's expected 1981/82 export availability has already depressed world sugar prices : there is no guarantee that it will not further depress prices. The sugar trade is aware that, to

shift such an availability, the EEC will need to dispose of an average of some 65,000 tonnes per week at whatever rate of subsidy is required. It is relevant that the world price for white sugar is currently at a discount to the price for raw sugar.

5. It is a matter of deep regret that the EEC continues to maintain policies which are not only contrary to its international obligations but which also have such a seriously detrimental effect on the trade of other countries. Australia therefore urges the CONTRACTING PARTIES to the GATT to take whatever action they consider appropriate to ensure that the EEC changes its system in order to remove the prejudice and the threat of prejudice which it continues to cause.

ATTACHMENT

ANALYSIS OF KEY ASPECTS OF THE NEW EEC SUGAR REGIME
NOTIFIED IN DOCUMENT L/5175

(A) PRODUCTION

'A' Quotas

1. The sum of 'A' quotas for the EEC of Nine has been increased by 90,000 tonnes, and provision has been made to transfer up to 30,000 tonnes of quota to France from the French overseas departments, an area that fell significantly short of its 'A' quota in the previous regime. Member States are able to transfer up to 10 per cent of their respective 'A' quotas between producers under certain conditions. These measures are likely to result in increased 'A' quota production and an avoidance of the shortfalls experienced in the past. In addition, Greece has been allocated an 'A' quota of 290,000 tonnes, an amount exceeded by actual production in only two previous years.

'B' Quotas

2. The sum of 'B' quotas has been reduced to 23.5 per cent of 'A' quotas (or by about 300,000 tonnes) compared to 27.5 per cent in the concluding years of the past regime. However, there have been shortfalls in 'B' quota production in recent years, averaging over 355,000 tonnes. Under the new regime 'B' quotas are redistributed amongst Member States, over a range of 10 per cent to 31 per cent of 'A' quota, on the basis of past 'B' quota production performance. The redistributed sum of 'B' quotas for the EEC of Nine is now 2.21 million tonnes, which is 56,000 tonnes more than average 'B' quota production during the previous regime. There is also provision for Member States to transfer up to 10 per cent of 'B' quotas between producers under certain conditions. The net result will therefore be to minimise shortfalls and at least maintain

past 'B' quota production levels. Additionally, Greece has been accorded a 'B' quota of 29,000 tonnes.

Total Quotas

3. Although there has been a nominal reduction in total quotas eligible for price and disposal guarantees to 11.439 million tonnes for the EEC of Nine as a result of changes to 'B' quotas, (see above), this total exceeds average total quota production of 11.156 million tonnes during the three best years of individual Member States under the previous regime. Also as a result of 'B' quota redistribution and 'A' and 'B' quota transfer provisions, it is likely that total quota production will remain at least at previous record levels. In addition Greece has been accorded total quotas of 319,000 tonnes.

'C' Sugar

4. There are no restrictions on production of sugar outside 'A' and 'B' quotas which must be exported or carried forward against the following year's 'A' quotas. There is therefore no restriction on overall Community production levels.

(B) EXPORT REFUNDS

Eligible Quantity

5. Based upon total quotas (11.439 million tonnes white value) and ACP imports (1.3 million tonnes) being fulfilled, and bearing in mind steadily reducing EEC consumption (9.3 million tonnes), the EEC of Nine would have some 3.4 million tonnes white value eligible for subsidy in 1981/82. (In raw value terms this represents 3.7 million tonnes and compares with 2.7 million tonnes in 1978 when the panel reached its conclusion on Australia's complaint).

(C) FINANCING OF REFUNDS

6. In the concluding years of the past regime, a levy of up to 30 per cent of the intervention price was applied to quota 'B' production. These funds contributed to finance export refunds with the balance being met by FEOGA. In future, costs of disposal of EC produced surplus sugar equivalent to imports under the Lomé Convention (some 1.3 million tonnes white value) will be met by FEOGA.

7. A basic production or "co-responsibility" levy of up to 2 per cent on 'A' and 'B' production is to be applied. In addition the levy of up to 30 per cent of the intervention price on 'B' quota production has been retained. These funds are to be used to finance subsidies in respect of exports of the remainder of EC produced surplus sugar (around 2.1 million tonnes white value). Any shortfall in these funds will be met by FEOGA for recovery by means of additional levy of 7.5 per cent of the intervention price on 'B' quota sugar applied retrospectively in the subsequent marketing year.

8. As an illustration of the operation of the financing system, Australia's calculations, based on the current world sugar prices of around 11.5 US cents/pound, indicate that for the EC to subsidise exports of 3.7 million tonnes raw value from its 1981/82 crop would involve total expenditure of some 950 million EUA (cf. 639 million EUA in 1978 and 685 million EUA in 1979). Of this, the Community budget would directly provide some 364 million EUA; production levies would initially provide a further 405 million EUA with FEOGA providing the balance of some 181 million EUA to be recovered by the additional 7-1/2 per cent levy in 1982/83 and subsequent years.

9. Overall, the new financing arrangements while amending the sourcing of some funds, does not reduce or limit the total funds or rate of subsidisation available for EEC exports.

(D) SUPPORT PRICES

10. The intervention price for white sugar in the EEC was increased by 8.5 per cent for 1981/82. This increase (and simultaneous re-alignment of green currency rates) will appreciably boost earnings by Community sugar producers and act to further stimulate sugar production. The increase is by far the highest since 1975/76 and is hard to reconcile with EC claims during the course of the Working Party that the Community would restrain internal price increases for sugar as part of a generally prudent price policy - claims which it suggested should be taken in good faith by the Contracting Parties. It also can be seen as insulating producers from, or compensating them for, introduction of the 2 per cent co-responsibility levy. This is demonstrated by the fact that, despite falling world prices and full knowledge that the introduction of the co-responsibility levy was imminent, Community producers increased plantings this year by an estimated 10 per cent overall and in France by an estimated 17 per cent. In this light, the co-responsibility levy holds no prospect of discouraging surplus production. Its incidence appears to have been passed on to consumers and could act to further discourage EEC consumption, thereby adding to the export surplus. Its major retrogressive aspect, however, is that it impedes the possibility of EEC budgetary constraints limiting the scope of its subsidisation of sugar exports in the future.