WORKING PARTY - EEC REFUNDS ON EXPORTS OF SUGAR

The following communication, dated 19 January 1981, has been received from the Delegation of the European Economic Community for circulation to the members of the Working Party.

Reply by the European Economic Community to the GATT Working Party
Concerning the Examination Conducted under Article XVI (1)
of the General Agreement - the case of
Australian and Brazilian Sugar

(Following the decisions by the GATT Council on 10 November 1980
and by the Contracting Parties on 25 November 1980)

I

Under the above-mentioned decisions, the Contracting Parties requested the European Economic Community to discuss with them the possibility of limiting the subsidization on sugar exports.

At the first meeting of the Working Party on 4 and 5 December 1980, a number of suggestions were put forward by the various delegations with regard to the possibility of limiting the refunds on exports of sugar from the EEC, from the angle of exportable quantities and/or the amount of the refund.

In addition to the observations made by its Representative in the Working Party, the EEC would make the following comments and clarifications:

It should be noted first of all that the examination conducted under Article XVI (1) cannot and must not call into question the other agreed conclusions resulting from the reports by the "Australia" Sugar Panel and the "Brazil" Sugar Panel.

Secondly, the examination can be conducted only within the limits of the rights and obligations arising from the General Agreement.

With regard to the possibility of limiting the refund on exports of sugar from the EEC, account must be taken of the Community rules for the sugar market.

These rules include a price system, a production quota system and a production levy. The price and quotas system affects and helps to determine the amount of the refund and the exportable quantities.
The production levy concerns the financial responsibility of producers and influences the way in which exports refunds are covered.

II

The amount of the refund

The amount of the refund is determined by the level of internal prices fixed in the EEC and world market prices for sugar.

The only real possibilities for influencing the amount of the refund depend on the levels of these prices.

One theoretical possibility for limiting the export refund would require unilateral action by the EEC to fix its internal prices at a specified level.

A second theoretical possibility would depend on determining world prices as precisely as possible, insofar as this is feasible, in order to avoid any danger that the EEC sugar may be offered at prices below prices ruling on the world market.

Production quotas

Sugar in the EEC qualifies for price and marketing guarantees within the limits of the quantities produced under the A and B quotas.

The A quota represents a basic amount of 9,136,000 tons of white sugar for the whole of the EEC. In addition to the A quota there is a B quota for each producer fixed uniformly for 1980/81 at 27.5 per cent of quota A. There is a production levy on B quota sugar which since 1975/76 has been at maximum of 30 per cent of the intervention price.

Any production outside the quotas, designated "C sugar", has to be exported by the producer at his own expense.

As what is at issue is the possibility of limiting the export refund, the examination can cover only the A and B quotas.

Quota A is fixed in the light of actual production in the EEC in 1968-72. Production under the A quota varies between 8.6 and 9 million tons, i.e. it remains between 0.5 and 0.9 million tons below the EEC's internal consumption. That therefore leaves only the B quota as a means of influencing the volume of exports with refunds.
Imports of ACP sugar by the EEC

The EEC imports from the ACP countries 1,400,000 tons of raw sugar at a guaranteed price, equivalent to the EEC internal price.

These imports are effected as part of the undertakings entered into by the European Economic Community under the Lomé Convention and are intended to help stabilize the export earnings of the countries in question by guaranteeing a price tied to the Community price.

The imported sugar is re-exported by the EEC to the world market as white sugar and may qualify for export refunds.

This is a specific case which must be assessed separately and cannot be included in any consideration of the volume of exports with refunds.

IV

In the light of the foregoing and in particular in view of the possible ways existing, the EEC considers that it can give the following positive reply, under Article XVI, paragraph 1, to the request for an examination of the possibility of limiting the export refund as following:

- Sugar prices within the EEC (intervention price for white sugar) have been fixed during the last three marketing years at a level involving very slight increases over the previous years, especially in view of the fact that inflation rates (based on the average general index of consumer prices in the EEC) have been relatively high over the last few years.

<table>
<thead>
<tr>
<th>Marketing year</th>
<th>Intervention price for white sugar</th>
<th>% increase over preceding marketing year</th>
<th>Average rate of inflation in the EEC in relation to preceding year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975/76</td>
<td>35.58</td>
<td>+ 15.7%</td>
<td>1976 = 10.8%</td>
</tr>
<tr>
<td>1976/77</td>
<td>37.94</td>
<td>+ 6.6%</td>
<td>1977 = 10.5%</td>
</tr>
<tr>
<td>1977/78</td>
<td>39.69</td>
<td>+ 4.6%</td>
<td>1978 = 7.5%</td>
</tr>
<tr>
<td>1978/79</td>
<td>40.49</td>
<td>+ 2.0%</td>
<td>1979 = 10.0%</td>
</tr>
<tr>
<td>1979/80</td>
<td>41.09</td>
<td>+ 1.5%</td>
<td>1980 = 13.0%</td>
</tr>
<tr>
<td>1980/81</td>
<td>43.27</td>
<td>+ 5.3%</td>
<td></td>
</tr>
</tbody>
</table>
With regard to the world market price, the EEC - which does not control this price - is prepared to co-operate with the other sugar exporting countries in order to seek ways of making the world market more transparent and making the method of determining offer prices more objective, if possible.

As for the possibility of limiting the quantities for which an export refund may be granted, the EEC wishes to point out that B quota has been reduced from 35 per cent to 27.5 per cent of A quota since the 1978/79 marketing year.

The EEC would also draw attention to the decision taken by EEC Council on 27/28 April 1980 according to which all exports refunds of sugar produced in the EEC in excess of internal consumption will be covered by levies on producers.

This principle was put into effect by Regulation (EEC) No. 1592/80 of 24 June 1980 on the application of the system of quotas for sugar for the 1980/81 marketing year.

It should be pointed out that in the 1979/80 marketing year the total amount of the production levy amply covered the costs arising from refunds on exports of sugar produced in the Community.

As regards the context in which the Working Party will conduct its examination, it should be noted that owing to the trend of the world market no export refund has been granted since the beginning of May 1980. On the contrary, the EEC found it necessary to impose levies on exports of B sugar in order to stabilize its own market which at present is since May 1980 lower than the world market price. The examination by the Working Party will therefore be of practical relevance only in the event of a new world market trend characterized by prices lower than those ruling on the EEC market. In this respect, it should be noted that following the second significant rise in the world market over a period of only six years, the EEC is reacting very differently from the way it acted following the first rise in 1974/75.

As a result of the 1974/75 sugar shortage, the EEC decided on incentives for production (EEC price up by 15 per cent; A quotas up by 16 per cent; B quotas for 1975/76 marketing year 45 per cent of the A quota).

In contrast, starting with the 1978/79 marketing year and for the following two marketing years, the B quota was reduced from 35 per cent to 27.5 per cent of A quota and the guaranteed prices, as already indicated, rose by only a fairly slight amount compared with the general trend of consumer prices.
The EEC is considering not increasing the quotas - or even reducing them slightly for the next few years - and restraining price increases as part of a generally prudent policy on agricultural prices. It is applying this policy despite an upward trend in the quantities involved in international trade.

It may also be pointed out that in the absence of supplies of sugar available for export from the EEC, given the current buoyancy of the world market, the consequences would have been serious for importers and exporters alike, both categories being concerned with stabilization and therefore also with the maintenance of sufficient supplies for the world market.

VI

As a conclusion, EEC is of the opinion that in addition to the measures taken in the field of prices and quotas, the EEC common market organization for sugar contains a new fundamental element constituted by the total financial responsibility of producers for export refunds and this gives a sufficiently large response to the request put to EEC in terms of Article XVI, paragraph 1.