

APPENDIX 4.1

(referred to in paragraphs 2.5, 4.6, 4.7, 4.16, 4.37, 4.57 and 7.6)

The European Community sugar regime¹

Summary of the sugar regime

1. The Community sugar regime is a part of the Community's overall Common Agricultural Policy (CAP). Although the establishment of a Community sugar regime was foreseen in Annex II to the Treaty of Rome of 25 March 1957, it did not come into full effect until 1968/69. The objective of the regime was then described as being to stabilise the sugar market whilst maintaining the necessary guarantees in respect of employment and living standards of Community growers of sugar beet and sugar cane. The regulation setting out the scope of the regime did not give an objective in relation to sugar beet processors or sugar cane refiners; the present basic sugar regulation, however, refers to the need 'to provide guarantees which are fair both to manufacturers and to producers' and to 'create the means of ensuring that raw cane sugar imported under the preferential systems can be refined under the most equitable conditions of competition'.

2. The principal elements of the current regime are:

- (a) a system of national production quotas, which restricts the quantity of sugar produced in the Community that is entitled to support under CAP;
- (b) a system of linked institutional prices for white sugar, raw sugar and sugar beet, providing a guaranteed minimum price for Community-produced sugar beet used in the manufacture of sugar up to this level of production;
- (c) a system of production levies with the objective that Community sugar processors and beet growers together meet the cost to the budget of disposing of Community production falling within quota but surplus to consumption;
- (d) preferential access for imports of cane sugar from ACP countries up to specific quota entitlements;
- (e) free trade within the Community, but with a system of levies and refunds on trade with countries outside the Community designed to insulate the European market from fluctuations in world prices, and to allow the disposal on world markets of European quota production surplus to consumption; and
- (f) production refunds for sugar used in the chemical industry.

3. The regulations governing the regime also require that, where rules are agreed between representatives of the sugar beet growers and processors concerning, in particular, the conditions of purchase for beet (so-called inter-professional agreements), they must conform to specified outline provisions.

Historical development of the sugar regime

4. When the regime was introduced, of the original six member states only Italy was significantly below self-sufficiency in sugar (on occasions being as low as 50 per cent self-sufficient). Other countries, particularly France and Belgium, were very considerable surplus producers (between 150 per cent and 170 per cent self-sufficient).

¹This appendix updates the account of the European Community sugar regime contained in Appendix 2.1 of the MMC's 1987 report.

5. The accession of the new member states in 1973 changed the pattern of the market very significantly. Denmark was the most easily assimilated in price and production terms (142 per cent self-sufficient in sugar production). The United Kingdom was, for historical reasons, the least self-sufficient in production of beet sugar of all member states (30 per cent), with a large traditional import requirement for raw cane sugar.

6. Import quotas under the then Commonwealth Sugar Agreement (CSA) totalled 1.7 million tonnes raw value, of which 340,000 tonnes was allocated to Australia. As a result of the United Kingdom's entry into the Community the CSA was not renewed in 1974. However, access to the Community for imports from ACP countries of an amount totalling 1,304,700 tonnes WSE, most of which is received raw, was guaranteed under the Lomé Convention and associated agreements. Provisions to implement this commitment are incorporated in the sugar regime. With the exception of Australia, all the Commonwealth countries which had supplied the United Kingdom under the CSA received quotas under the Lomé Convention. Most of the sugar allowed preferential access to the Community under the sugar regime is refined and sold in the United Kingdom by TLS, although some is refined in Portugal and France. About 4 per cent of the total ACP sugar quota arrives in the form of direct consumption sugar, ie raw cane sugar ready for consumption without further processing and ACP white sugar.

7. Britain's accession to the EC and the ending of the CSA coincided, in the event, with the most severe sugar shortage for 20 years. Prices on the world market rose rapidly, reaching £680 per tonne for a brief period. Early in 1974 certain Caribbean suppliers diverted supplies away from Britain, where fixed prices of £63 per tonne prevailed, compared with a world market price of £250 at that time. By the middle of 1974 it was apparent that Britain would be short of more than 20 per cent of its annual sugar requirement for that year.

8. A number of measures were required to maintain supplies to the United Kingdom market, involving transfer payments from British Sugar to the cane sugar refiners and subsidies from both the Government and the Community. The sugar regime was broadly successful in stabilising domestic market prices, however, and in maintaining supplies to the British consumer during this difficult period.

9. In view of the possibility of a continuing sugar shortage in the Community, in drawing up arrangements for the second quota quinquennium in 1974 the Community took various measures to encourage beet production. In particular, there was a substantial increase in production quotas; and there was an increase of some 15 per cent in support prices. Following these measures Community production of sugar rose sharply.

10. The second quota quinquennium was intended to cover the five-year period to 1979/80. Earlier concerns about a sugar shortage having been replaced by those of a structural surplus, the European Commission proposed a number of changes at the end of 1979, including a reduction of some 11 per cent in overall maximum quota levels, with the proposals for the United Kingdom suggesting a reduction of nearly 30 per cent which was later reduced to 23.3 per cent. The proposals were not agreed and the regime was rolled forward into 1980/81.

11. New legislation was eventually introduced with effect from 1 July 1981 for the third quota quinquennium, to cover the marketing years up to 1985/86. Total A and B quotas were reduced by about 1.7 per cent, but the United Kingdom B quota was cut by 13.7 per cent. The basic structure of the regime was rolled over for the fourth quota quinquennium, to cover the period 1986/87 to 1990/91.

12. Council Regulation No 1785/81 introduced in July 1981 remains the basic legislation, although it has been amended several times since 1981. At the time of the quota review in 1986, no change was made to existing quotas. Spain and Portugal were granted quotas on their accession to the Community on 1 March 1986.

13. During the 1970s, technical advances in the production of a new cereal-based sweetener, isoglucose, resulted in the substitution of isoglucose for sugar in certain large-scale uses in the USA and Japan. Controls were therefore introduced on isoglucose production to prevent this substitution happening in the Community. Since 1981 the regime has covered the markets both for sugar and for isoglucose, and applied a unified system of control and regulation.

14. In 1985/86 the refining margin for preferential cane sugar was reduced relative to the beet sugar processing margin as a result of changes to institutional prices. In order to compensate refiners an MCA pre-fixation mechanism was introduced for refiners of preferential cane sugar. From 1987/88 this mechanism was replaced (under Council Regulation 2250/88) by a flat rate EC 'adjustment aid' payable in the United Kingdom, France and Portugal on raw sugar which originates in the ACP or DOMs and which is refined into white sugar. The aid was fixed at 0.08 ECU/100 kg at the time of its introduction at the beginning of the 1987/88 marketing year. Subsequently additional adjustment aid has been paid to take account of the amount of storage levy due on beet sugar. In 1988/89 the aid was 0.58 ECU/100 kg, and in 1989/90 1.08 ECU/100 kg. For 1990/91 the figure is 1.58 ECU/100 kg. These revisions are not, however, automatic but have to be agreed annually. The aid runs until 30 June 1991 after which it will cease unless renewed. Council Regulation 2250/88 also recognised the 'special situation in the United Kingdom white sugar market' with the United Kingdom cane refiner relying entirely on imported ACP sugar, and with the dependence of the EC upon the continued existence of that refiner to meet its commitments to the ACP under Lomé. In the circumstances the Regulation provided for a flat rate 'national' aid, over and above the Community aid, of up to 0.5 ECU/100 kg to be paid at the United Kingdom's discretion on the same basis as the Community aid, again until the end of the 1990/91 marketing year.

15. The United Kingdom Government decided to pay the maximum level of national aid until the end of the 1988/89 marketing year. In 1989 the level of the aid was reassessed and, recognising that the underlying institutional margin disadvantage of Tate & Lyle had not changed, the Government decided to continue the aid at 0.5 ECU/100 kg until the end of the 1990/91 marketing year when it falls to be reviewed by the European Commission along with the Community aids. The United Kingdom contributes some 93 per cent of the cost of the national aid to Tate & Lyle. As part of its plans for the sugar regime arrangements to apply from 1 July 1991, the European Commission has not proposed a continuation of the United Kingdom aid for cane refining.

16. The European Commission proposals for the Community sugar market after 1 July 1991 include maintenance of sugar production quotas at their 1990/91 level for the 1991/92 and 1992/93 marketing years. During this time the implications of the current GATT negotiations for the sugar regime and the completion of the single EC market should become known. Current GATT negotiations (the so-called Uruguay round) include the discussion of possible EC measures to reduce agricultural protection and to introduce some liberalisation of international agricultural trade. Depending on what is agreed this could lead to changes in the sugar regime to cut back Community sugar output.

Principal elements of the regime

(a) Production quotas

17. The system of production quotas which is part of the sugar regime is designed to limit the quantity of sugar which receives the benefit of Community support and to discourage over-production. Each member state is allocated an A and a B quota to be distributed among its sugar processors. The difference between the two quotas is that A quota sugar receives the highest level of support in that it is subject to a production levy of 2 per cent of the intervention price; B quota sugar is subject to a maximum levy of 39.5 per cent. Fuller details of these production levies are given in paragraph 30.

18. The present A quotas are the same as under the pre-1981 regime, with the exception of those for Italy and Greece which were increased somewhat; initially they were based on average production between 1968/69 and 1972/73 multiplied by a coefficient set by the Council. The present B quotas were set at the outset by reference to production performance within maximum quota under the pre-1981 regime, at a percentage rate varying for each member state, but subject to a minimum level of 10 per cent of A quota. The United Kingdom, Greece, the Irish Republic and Portugal have B quotas at this 10 per cent level; all other countries have larger B quotas, up to 30 per cent of their A quotas. The A and B quotas set by the Community have not been changed since 1981/82. When last reviewed the existing quotas were rolled forward for the period until the end of the 1990/91 marketing year (30 June 1991). Quotas were, however, provided for Spain and Portugal following their accession to the Community. In addition following the recent reunification of West Germany and the German Democratic Republic the region of Germany which was formerly the GDR has been given an A quota of 647,702 tonnes and a B quota of 199,298 tonnes. Table 1 gives the current production quotas by member state.

TABLE 1 Current basic EC sugar quotas (in tonnes white sugar)

<i>Region</i>	<i>A quota</i>	<i>B quota</i>	<i>Total A & B</i>
Belgium/Luxembourg	680,000	146,000	826,000
Denmark	328,000	96,629.3	424,629.3
France (Metropolitan)*	2,560,000	759,232.8	3,319,532.8
DOMs*	436,000	46,600	482,600
Germany-(existing quota)	1,990,000	612,312.9	2,602,312.9
-new quota for sugar producers within regions formerly part of the GDR	647,702	199,298	847,000
Greece	290,000	29,000	319,000
Ireland	182,000	18,200	200,200
Italy	1,320,000	248,250	1,568,250
Netherlands	690,000	182,000	872,000
Portugal (Mainland)	54,545.5	5,454.5	60,000
Portugal (Azores)	9,090.9	909.1	10,000
Spain	960,000	40,000	1,000,000
United Kingdom	<u>1,040,000</u>	<u>104,000</u>	<u>1,144,000</u>
Total	11,187,338	2,487,886.6	13,675,225

Source: MAFF.

*Quota after transfer of 30,000 tonnes A quota from DOMs to Metropolitan France in 1981/82.

19. Member states have power to transfer A and B quotas between processors in the same region, up to a maximum of 10 per cent of the A quota of the processor losing quota during the quinquennium, irrespective of whether or not the processor receiving the quota already has an existing quota. However, when deciding to use these powers, member states must take particular account of the interests of sugar beet growers. The 10 per cent maximum does not apply to Italy, to the DOMs, or to Spain if the quota transfer is operated in the context of a plan for restructuring the industry. If a beet factory is sold from one processor to another, production quotas are transferred pro rata to production.

20. Sugar produced in excess of a processor's maximum quota (known as C sugar) may not normally be sold on Community markets. Both C sugar and B quota sugar may, however, be carried forward to count towards the following year's A quota production. Sugar so carried forward is termed 'blocked' sugar, as it may not be sold for a year from a date to be determined; its quantity is limited to a maximum of 20 per cent of a processor's A quota. C sugar which has not been blocked has to be sold on world markets 'before 1 January following the end of the marketing year in which it was produced', without any Community export refund (see paragraphs 43 to 47). In order to encourage compliance with these restrictions there is provision to levy a large fine on any C sugar which cannot be shown to have been satisfactorily exported.

(b) Institutional prices

21. The Community support system for sugar is based on a series of linked institutional prices for white sugar, raw sugar (both beet and cane) and sugar beet, providing a guaranteed minimum price for sugar beet used in the production of A and B quota sugar. These prices are set annually by the Council of Ministers in ECUs and they are converted into national currencies at agricultural exchange rates (generally known as 'green rates'). The system of green currencies has the objective of sheltering agricultural prices from the effects of exchange rate fluctuations and maintaining free trade within the Community in agricultural and food products.

(i) Intervention price

22. The intervention price for white sugar represents a guaranteed minimum price. It is the price at which member states must buy any Community-produced quota sugar offered to them by sugar processors or certain traders. In practice intervention buying of sugar is unusual, with surplus quota sugar disposed of by export to countries outside the Community with the aid of export refunds (see paragraphs 43 to 47). For white sugar the intervention price is set for non-deficit areas, with a derived price applied to areas which do not produce sufficient sugar to cover consumption. Four member states-Italy, Ireland, the United Kingdom and Portugal-are currently defined as deficit and their derived prices include an element which at least in part counteracts transport costs from surplus to deficit areas.

23. The raw sugar intervention price is based on the common intervention price for white sugar, less a margin for refining white sugar from raw beet sugar in beet factories off-season and an adjustment for weight loss. A single Community price is currently set for raw sugar although derived prices may be established for deficit areas. In the past some sugar factories only undertook initial processing to the raw sugar stage but today the raw sugar price is of less relevance. It does, however, have significance in determining the guaranteed price to the ACP producers.

(ii) Target price

24. The target price represents a theoretical internal market price level the European Commission would like to see, and is not a price guarantee for producers. In the preamble to Council Regulation No 1452/86, the Commission stated:

The target price for sugar must be fixed at a level which, taking into account in particular the resultant level of the intervention price, ensures a fair remuneration for beet and sugar cane producers while at the same time respecting consumers' interests and which is likely to maintain the balance between the prices of the principal agricultural products.

The target price is valid for bulk white sugar of standard quality, unpacked, ex-factory, loaded on to the means of transport chosen by the purchaser. All other prices in the mechanism are related to the target price.

(iii) Threshold price

25. The threshold price applies at the Community port or frontier and represents the minimum price at which sugar may be imported from non-member countries. It is designed to protect Community growers and producers from third country competition at times, such as the present, when world market prices are lower than Community prices.

26. The threshold price for white sugar is equal to the target price plus the storage levy, plus transport costs from the area of greatest surplus, Northern France, to the area of greatest deficit, stipulated as Palermo, Italy. The threshold price for raw sugar is this sum, less a deduction reflecting a standard margin for refining white sugar from raw beet sugar in beet factories off-season and a standard yield. When world prices are below the threshold price (as is normally the case), a variable charge is levied on imports to compensate for this difference; thus non-preferential sugar cannot be imported into the Community at less than the threshold price.

(iv) Beet prices

27. In order to ensure that guaranteed prices for sugar are passed on to the grower, manufacturers buying beet for sugar manufacture must pay growers a certain price for standard quality beet. The basic beet price is calculated from the white sugar intervention price by deducting the costs of delivering the beet to factories and processing it into sugar; and by adding the processors' receipts from sales of molasses

(a by-product of sugar manufacture). For beet which is to be used to produce A quota sugar, the basic price is reduced by 2 per cent to obtain the minimum A quota price while beet for B quota sugar is reduced by a maximum of 39.5 per cent. However, sugar manufacturers may also pass back to growers 60 per cent of the cost of the elimination levy or any special elimination levy or additional levy fixed (see paragraphs 33 and 34).

(v) Storage refund

28. The timing and period of the sugar beet harvest depends primarily on the weather conditions of the area in which it is grown. In the United Kingdom sugar beet is harvested during a period of four months between September and January. The beet must be processed into white sugar shortly after harvesting; demand, however, is fairly even throughout the year. Under free market conditions processors might wish to charge a price that varies throughout the year in order to offset the storage and financing costs involved. In the interests of the orderly marketing of sugar within the Community, however, processors and specialised sugar traders are reimbursed for the costs of holding sugar in store. These refunds are financed by a levy-the 'storage levy'-charged on all A and B quota sugar when it is first marketed (other than sales into intervention). As a result market prices must be above intervention levels at least by the amount of the storage levy, as otherwise the manufacturer would be unable to recoup the storage levy, and it would then pay him to sell his sugar to the intervention agency. ACP sugar is no longer covered by the storage cost levy/refund scheme and therefore the amount of the storage levy is an important element of the cane margin.

(vi) Effective support prices

29. Since the storage levy is charged on all sales by manufacturers apart from sales into intervention, the effective support price equals the intervention price plus the storage levy.

(c) Production and elimination levies

30. Surplus sugar production within the maximum A and B quota is usually exported on to the world market. When world prices are below Community support prices, a 'refund' may be paid to the exporter broadly intended to make up the difference (see paragraph 43). The system of production levies is designed to cover the cost of exporting the surplus production, within quota, over Community consumption. Because of imports of preferential sugar, however, the Community's gross exports in any marketing year exceed the surplus of quota sugar as such, and the cost of disposal of the first 1.3 million tonnes WSE of exports (equivalent to the quantity of preferential ACP sugar imported into the Community) is charged to the general Community budget. Production levies are also intended to recover the cost of production refunds granted on sugar and sugar syrups used in the manufacture of certain chemical products and the cost of the export refunds granted on sugar exported in manufactured food products.

31. Prior to 1981, a production levy of 30 per cent could be charged only on B quota sugar. Under the system in place since 1981, a production levy of 2 per cent of the intervention price for white sugar is imposed on all A quota, as well as on B quota, sugar. In addition, a further levy of up to 30 per cent of the intervention price for white sugar may be charged on B quota sugar. This supplementary levy on B quota sugar may be increased up to 37.5 per cent as a result of a Commission decision, if the smaller levy is not sufficient to cover the overall losses on the export of surplus quota sugar production. The maximum of 37.5 per cent has been imposed in every marketing year since 1982/83 (with the exception of 1989/90), giving a total maximum levy on B quota sugar of 39.5 per cent of the intervention price. The levies are borne by farmers and processors in the ratio 60:40.

32. If the application of these normal levies, at their maximum rates, is in any year more than sufficient to finance the expenditure on export subsidies, the production levy on B quota sugar is reduced accordingly in the following year. In such a situation, the production levy would be less than the maximum possible. In a year when the world price is consistently above the Community intervention price, no B quota levy arises. However, in the recent past world market prices have tended to be low, and export refunds correspondingly high. Even with production levies at their maximum there was an accumulated deficit on

the cost to the budget of export refunds, as compared with the revenue raised from production levies, of some 400 million ECUs by the third quota quinquennium.

33. In order to remove this deficit, an elimination levy was introduced on 1 July 1986 applicable to all A and B quota sugar production (and isoglucose) during the fourth quota quinquennium (1986/87 to 1990/91). Different rates of elimination levy were set for the different member states. The burden of the elimination levy is shared between growers and processors in the normal 60:40 split. The elimination levy does not apply to Spain or Portugal, as they had not joined the Community when the deficit arose.

34. For the 1986/87 and 1987/88 marketing years a special elimination levy was added, as an *ad hoc* measure, designed to remove in-year deficits built up on the production levy/export refund account. From 1987/88 this was converted into a permanent additional levy charged at whatever rate is necessary to ensure any deficit on the producer levy account is cleared within six months of the end of the marketing year.

(d) Imports of cane sugar

35. The essential features of the former CSA (guarantees of duration, access to markets, and price) were continued in respect of the developing countries under the Sugar Protocol to the ACP-EEC Convention of Lomé of February 1975.

36. The current preferential sugar quotas under this Sugar Protocol are set out in Table 2.

TABLE 2 **Preferential sugar quotas for the ACP countries under the Lomé Convention**

Country	Agreed quantities tonnes (WSE)
Barbados	50,312.4
Belize	40,348.8
Congo	10,186.1
Fiji	165,348.3
Guyana	159,410.1
India	10,000.0
Ivory Coast	10,186.1
Jamaica	118,696.0
Kenya	0.0
Madagascar	10,760.0
Malawi	20,824.4
Mauritius	491,030.5
St Kitts	15,590.9
Surinam	0.0
Swaziland	117,844.5
Tanzania	10,186.1
Trinidad/Tobago	43,751.0
Uganda	0.0
Zimbabwe	30,224.8
Total	1,304,700.0

Source: MAFF.

37. Import levies are not charged on Community imports of preferential sugar, and the use of any other protective measures is prohibited. For preferential sugar the Community undertakes for an indefinite period to purchase and import, at guaranteed prices, specific quantities of cane sugar which originate in certain named ACP states and which these states undertake to deliver. The commitment of an indefinite period means that, even if the rest of the Lomé Convention should be allowed to lapse, the sugar provisions will be maintained. The 'guaranteed prices' are negotiated annually, within the price range obtaining in the Community. The prices apply to bulk sugar, if European ports of the Community. The supplying states are free to sell their sugar on the Community market, under normal commercial arrangements, at the best prices they can get. If, and only if, they are unable to market their sugar at prices equal to the guaranteed price, the Community is under an obligation to step in and purchase their sugar if it is offered into intervention at that price and imported into the Community; no system yet exists to cover this eventuality.

In effect, the ACP guaranteed prices for raw and white sugar have been the same as (or close to) Community raw (and white) sugar intervention prices respectively.

38. There are stringent conditions governing the fulfilment of the quotas. If an ACP state's quota is not filled entirely (for reasons other than *force majeure*), then the quota may be 'reduced in respect of each subsequent delivery period by the undelivered quantity'. The Commission may reallocate the unused quotas to other ACP states for future delivery periods; but the reallocation is not automatic. There has been some shortfall of deliveries on the quotas set by the original Lomé Convention. Initially this led to a reduction in the total of ACP quotas; but in July 1984 the original quota total was reinstated.

39. Preferential sugar, once admitted, is in 'free circulation' within the Community. This means that it is eligible for Community export refunds on sales to third countries on the same conditions as Community-grown beet and cane sugar. It cannot be sold into intervention except as raw sugar offered directly by the ACP countries.

(e) Trade aspects of the sugar regime

(i) Monetary compensatory amounts

40. Given the system of 'green' conversion rates, different from market exchange rates, for the determination of agricultural prices in individual member states, it is necessary to adjust for the divergences between the green and market exchange rates when CAP products (including sugar) are traded among member states or between an individual member and third countries. Such adjustments are achieved through so-called Monetary Compensatory Accounts. They are applied as levies or subsidies on imports and exports depending on the relationship between the market exchange rate and the green rate. The EC Commission has proposed that green rates for agricultural pricing, and in consequence MCAs, should be abolished by the end of 1992.

(ii) Import and export licences

41. Whilst sugar other than C sugar is freely traded within the Community the import into the Community as well as the export of sugar (including C sugar) is subject to a system of licensing. The licences both permit and oblige the holder to import or export the relevant quantity of sugar within a certain tolerance and within a certain time limit.

(iii) Import levies

42. As explained in paragraph 25, threshold prices for white and raw sugar are set each year. These represent the minimum price at which non-preferential imports from third countries may enter the Community. When the world price (the most favourable world offer price calculated cif at Rotterdam) is below this level a variable import charge is levied to offset the differential.

(iv) Export refunds

43. When the Community's prices are significantly higher than those on the world market, the Community's manufacturers and traders would sell into intervention rather than export surpluses of quota sugar in the absence of some financial mechanism to bridge the gap. The Community uses export refunds to cover the difference between world market prices and prices within the Community. The refunds apply not only to the main products covered by the sugar regime but also to the export of certain processed products containing sugar. Where world market prices are higher than Community threshold prices a levy must be paid in respect of all A and B quota sugar that is exported.

44. In practice the Community's use of export refunds is the principal method by which it supports its domestic market prices, as it grants refunds on whatever quantity of sugar it judges to be surplus to internal needs. As a result, very little use of intervention buying is made in the sugar regime. Producers with sugar in excess of that which they can expect to sell in their national markets make their own arrangements to sell or export the sugar, either to another member of the Community or to the world market. Alternatively, and more usually, producers sell the excess sugar to sugar traders at, or perhaps marginally above, the ESP. The trader will then seek a market for the sugar, relying for profit on his knowledge of Community and world markets and, in relation to exports outside the Community, his ability to judge the best time to apply for an export licence.

45. Export refunds for sugar are payable on Community beet and cane sugars and on sugars produced from preferential sugar imports or imported under the special arrangements pertaining to Portugal. The refunds on the main sugar products take two forms. First, there is a standing export refund for sugar, available at all times. The level of the refund is normally fixed fortnightly by the Sugar Management Committee of the Commission and representatives of the member states, and is primarily meant to cover the export of small quantities of sugar. When fixing the refund to be applied, account has to be taken of:

- (a) the intervention prices in the area of greatest surplus within the Community;
- (b) transport costs from the area of greatest surplus to Community ports;
- (c) 'trade expenses and trans-shipment, transport and bagging charges incurred in marketing sugar on the world market';
- (d) world sugar prices; and
- (e) 'the economic aspect of the proposed exports'.

46. The second type of export refund is fixed by means of export tenders, in which traders bid for the level of refund they need in order to be able to compete on world markets. It is through these tenders that the majority of Community sugar is usually exported. The export tenders are held weekly. Bids are lodged with intervention agencies by Community sugar traders. The intervention agencies communicate the bids to the Commission services, maintaining the anonymity of the original bidders. The European Commission, having sought the opinion of the Sugar Management Committee, then fixes the amount of the maximum refund on the basis of the most competitive bids, up to the theoretical maximum rate of refund it can grant (ie the full difference between EC and world prices). This is subject to a volume target which normally results in the Commission granting a maximum rate of refund less than the theoretical maximum because the target volume has been reached.

47. In considering the Commission's proposals for setting the maximum export refund (or minimum export levy) to be applied, the Sugar Management Committee takes account of spot and forward prices and movements in these prices since the previous tender. It also has to consider the quantity of surplus sugar available for export in the Community in order to regulate exports in an orderly manner. The system provides considerable room for judgment, and enables movements in other commodity markets and in foreign exchange markets to be taken into account as necessary.

48. When world sugar prices are above the Community threshold price a levy is payable on all sugar which is exported outside the Community. The arrangements for the setting of the levy are the same as for the refunds. The sugar regime also provides for refunds or levies on sugar exported in processed products although these are not covered in this appendix.

(f) Production refunds for sugar used in the chemical industry

49. Production refunds may be granted on sugar and sugar syrups used in the manufacture of certain chemical products. This scheme came into operation on 1 July 1986 with the aim of increasing the uptake of sugar by providing quota sugar at broadly the world price to the chemical industry. Under the scheme, usage of sugar by the EC chemical and pharmaceutical industries has increased from 89,000 tonnes in 1985/86 to 186,000 tonnes in 1988/89. In the United Kingdom it has increased from 26,000 tonnes to 33,000 tonnes over the same period.

(g) The transitional arrangements resulting from the accession of Spain and Portugal

50. At the time of accession in 1986 Spanish beet and white sugar prices were significantly higher than Community prices. Price alignment was to be achieved by the freezing of Spanish prices in ECU terms, thereby allowing Community prices to catch up during the seven-year transitional period. This approach has not worked, however, since EC prices have themselves been frozen and, indeed, once cut since Spanish entry.

51. The Portuguese beet price was also higher than the Community price at the time of accession and price alignment will be achieved using the same mechanism applicable in Spain. The white sugar price was, however, lower than the Community price and this is being increased in seven equal steps so that the white sugar intervention price applicable in Portugal by the end of the transitional period will be the same as that applicable in the United Kingdom and Ireland.

52. Portuguese consumption of 300,000 tonnes per annum was supplied prior to accession almost entirely by sugar refined from cane raw sugar imported from the world market. In the years immediately preceding Portuguese entry a significant percentage of this was of ACP origin; the ACP were not, however, traditional suppliers to Portugal. During the transitional period, Portugal may import 75,000 tonnes (expressed as white sugar) of raw cane sugar annually at a reduced levy from four ACP countries (Ivory Coast, Malawi, Zimbabwe and Swaziland). The rest of her requirements are made up from raw cane sugar from the DOMs, Community-produced raw beet sugar and any spare ACP preferential raw cane sugar. However, if after examination of a Community balance sheet on supply and demand of raw sugar for refining a deficit is identified, a further quantity of reduced levy imports may be authorised from the world market as has been the case ever since Portuguese entry.

53. To ensure that supplies of raw sugar are available to the whole refining industry of the enlarged Community under the same economic conditions, the price of raw cane sugar imported under the reduced levy quota of sugar imported from DOMs and, if necessary, of Community produced raw beet sugar are equalised at broadly the guaranteed price of preferential ACP sugar by means of subsidies.

54. Portuguese accession has, however, we understand, exacerbated the shortfall of raw cane sugar supplies to refiners in the Community.