Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 4/09/2001

GAIN Report #E21039

European Union

Sugar

Annual

2001

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Report Highlights:
2000/01 is the last marketing year of the current EU sugar regime. By July 1, 2001, a new system will need to be put in place. According to the latest Commission proposal, the new regime will generally be an extension of the current one, with amendments.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Brussels USEU [BE2], E2

Executive Summary

In 2000/01, EU beet production decreased by 5 percent from the record crop of 1999/2000. A fall in beet area accounted for the main part of the reduction in output, as EU beet growers saw their overall production quotas reduced in 2000/01. While beet sowing for the 2001/02 harvest is not yet finished, it is estimated that beet area will continue to fall by about 3 percent. Combined with deteriorating yields, this may lead to a 10-percent drop in EU beet output in 2001/02.

Supply-demand balancing in the current EU sugar regime occurs primarily by disposing of C-sugar, i.e. selling C-sugar without export subsidies on the international market, or carrying it over to the next marketing year. Although slightly lower than in 1999/2000, C-sugar supplies remain large in the current marketing year 2000/01. Compared to 1999/2000, international prices have improved somewhat, which encourages EU sugar exporters to maximize C-sugar exports in times when export revenues are somewhat attractive. Consequently, demand for export licenses with a subsidy has slowed during 2000/01.

Over the last five months, a lot of debate has taken place around the Everything but Arms Initiative (EBA) of Directorate-General Trade of the European Commission, which was launched in September 2000. For sugar, the (amended) version of EBA will give the 48 poorest countries in the world free access to the EU market by July 1, 2009. Between the present and that date, liberalization will take place in stages whereby duty-free quotas will be set at current exports and increased by 15 percent in subsequent years.

EBA has complicated the ongoing debate about reform of the EU sugar regime, which will expire on June 30, 2001. To date, the EU Council of Agricultural Ministers has not yet adopted the Commission proposal on extension (with amendments) of the current common market organization. The need for drastic reform has now been confirmed by a majority of parties involved. There is, however, no consensus on the nature and timing of this in-depth reform.

Note: 1 EUR = 0.8845 dollars on April 4, 2001. Data were supplied by the European Commission unless otherwise noted.

Production-Supply-Demand Table

(Figures in 1,000 MT of raw sugar equivalent)

PSD Table						
Country:	European Union					
Commodity:	Sugar					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Beginning Stocks	3107	3107	3463	3777	0	2905
Beet Sugar Production	19234	19234	17230	18222	0	16330
Cane Sugar Production	312	312	331	287	0	284
TOTAL Sugar Production	19546	19546	17561	18509	0	16614
Raw Imports	1830	1669	1760	1750	0	1800
Refined Imp.(Raw Val)	75	117	75	100	0	100
TOTAL Imports	1905	1786	1835	1850	0	1900
TOTAL SUPPLY	24558	24439	22859	24136	0	21419
Raw Exports	2	2	2	2	0	2
Refined Exp.(Raw Val)	6773	6136	5148	6598	0	3998
TOTAL EXPORTS	6775	6138	5150	6600	0	4000
Human Dom. Consumption	14309	14513	14309	14620	0	14689
Feed Dom. Consumption	11	11	11	11	0	11
TOTAL Dom. Consumption	14320	14524	14320	14631	0	14700
Ending Stocks	3463	3777	3389	2905	0	2719
TOTAL DISTRIBUTION	24558	24439	22859	24136	0	21419

1/ MY generally means October/September, except for Greece and Italy: August/July; for Spain: July/June. The sugar marketing year for support payments is July/June.
2/ When converting from white to raw sugar, conversion factor 1.087, i.e. for beet sugar, used, although origin of sugar might also be partly cane.
3/ DOM sugar included in production data, excluded from trade data.
4/ Sugar-containing products are excluded from trade data. Therefore, domestic consumption includes 0.5 MMT to account for net trade in sugar-containing products.

Production

Marketing year 2000/01 is the first year of an overall reduction in EU sugar production quotas. This factor was taken into account by EU beet growers when they made their sowing decisions for the 2000 harvest. Total EU beet area in 2000/01 amounted to 1.815 million hectares, a 7.5 percent decrease compared to the previous year. Resulting beet output did not fall to the same extent, because yields improved by about 2.5 percent from in 1999/2000 due to generally favorable summer crop growing conditions. In France and Germany, the two largest sugar beet producing member states, yields increased by 2 percent, and 8 percent, respectively. In the U.K., yield levels fell by 5 percent, back to "normal" levels after the record-high yields obtained in 1999/2000. Harvesting conditions for the 2000/01 marketing year have been very hard in the U.K. and other North-West European countries, due to severely wet weather during the late autumn of 2000. Lifting operations have been hampered substantially, adding to total costs. Generally, the 2000/01 EU beet harvest took several weeks longer than normal to finish.

According to the latest EU Commission estimates, total EU beet output in MY 2000/01 amounted to 16.722 MMT of white sugar (18.177 MMT raw sugar equivalent), a 5-percent drop in comparison with the record crop of 1999/2000. All EU member states saw sugar output go down, except for Greece and Ireland, where production went up by 58 percent and 3 percent, respectively.

In spite of the area decrease, one can still consider the 2000 crop as a bumper crop which leads to high C-sugar supplies, i.e., sugar supplies outside A and B sugar production quotas, which need to be exported without export subsidies or carried over to the next marketing year. Export revenues on C-sugar will be dependent on international market price levels. Although world prices have improved somewhat over the last year, it is difficult for medium-cost producers such as EU countries to generate profits on C-sugar production. According to a study ordered by the European Commission (NEI study published in the fall of 2000, NEI=Dutch Economic Institute), on average 6 percent of C-sugar output is the result of a strategy of beet growers to sow sufficient beets to use the entire A and B sugar quotas, also in case weather conditions would be detrimental to crop results. The same study comments that EU sugar producers are able to cover the main part of total fixed and overhead costs by sales revenues from A and B-sugar. Exports of C-sugar will only be profitable if the world market price exceeds the marginal production costs of C-sugar.

In 2001, total EU sugar beet area is expected to drop by 3.4 percent. Although it is still early in the growing season, it is generally forecast that yield levels will drop by about 7 percent from the previous year, falling back to "normal" levels. In France and the U.K., spring 2001 beet sowing operations have been delayed due to wet weather preventing farmers from preparing the land. If delays continue to occur, yield levels may be negatively affected. In Germany and Scandinavia, beet sowing has reportedly been on schedule. Based on both lower area and decreased yield levels, total EU sugar output is expected to fall by 10 percent in 2001/02.

Details on total sugar production, area and yield levels by EU member state can be found in Tables 1 and 2.

The EU Farm Structure Survey of 1997 shows that there were 268,040 beet farms in the EU in 1997, of which 61,950 (23 percent) were in Italy, and 50,350 (19 percent) in Germany. The EU average beet area per beet farm equaled 7.95 HA in 1997, but large variations exist among member states. Highest average beet areas were found in the U.K. (20.9 HA), France (14.48 HA), and Sweden (12.21 HA), while beet growing occured at small average scale in Portugal (0.69 HA), Luxembourg (1 HA), Greece (1.80 HA), Austria (4.50 HA), and Italy (4.60 HA).

Table 1: Total sugar production in the EU (in 1,000 MT raw value)

	1999/2000 revised	2000/01 preliminary	2001/02 forecast
Austria	545	447	437
Belgium	1,187	1,024	980
Denmark	601	579	514
Finland	180	166	148
France - beet	5,001	4,685	4,101
France - cane	301	278	276
Germany	4,761	4,738	4,082
Greece	252	399	304
Ireland	230	238	234
Italy	1,849	1,687	1,435
Netherlands	1,215	1,153	1,014
Portugal	83	62	61
Spain - beet	1,199	1,155	1,094
Spain - cane	11	9	7
Sweden	467	448	426
U.K.	1,663	1,440	1,500
Total EU-15	19,546	18,509	16,614

Table 2: EU sugar crop data and yield levels

Member state	Area (1,000 HA)			Yield (MT of raw beet sugar per HA)		
	1999/2000 Revised	2000/01 Prelim.	2001/02 Forecast	1999/2000 Revised	2000/01 Prelim.	2001/02 Forecast
Austria	47	43	45	11.03	9.78	9.13
Belgium	104	95	94	11.41	10.78	10.43
Denmark	64	58	57	9.39	9.99	9.02
Finland	34	32	31	5.15	5.20	4.77
France	393	361	343	12.73	12.98	11.96

Germany	489	451	440	9.69	10.46	9.23
Greece	40	50	43	6.30	7.98	7.08
Ireland	33	33	33	6.98	7.21	7.08
Italy	275	240	220	6.72	7.03	6.52
Netherlands	120	112	106	10.13	10.30	9.57
Portugal	8	8	7	8.26	7.74	8.70
Spain	137	130	129	8.88	8.89	8.48
Sweden	59	56	56	7.92	8.00	7.61
U.K.	160	146	150	10.39	9.86	10.00
Total EU-15	1,963	1,815	1,754	9.77	10.01	9.28

Note: Area does not include sugar cane in the DOM. Area does include cane area in Spain.

While during the marketing years 1994/95-1999/2000, the production of isoglucose has consistently neared the A+B production quota, inulin syrup production has increased exponentially. In 2000/01 inulin syrup production is forecast to amount to 230,891 MT of dry matter, or 91% of it's a production quota. See Table 3 for details.

Table 3: Production of isoglucose and inulin syrup in the EU, MY 1994/95-2000/01 1/

	Isoglucose MT of dry matter	Inulin syrup MT of dry matter
1994/95	295,872	81,012
1995/96	302,707	128,246
1996/97	302,026	175,909
1997/98	302,722	217,960
1998/99	303,011	156,344
1999/00	303,009	230,046
2000/01 prelim.	N/A	230,891

1/ MY means July-June
Source: European Commission

Consumption

Consumption - General

Contrary to other regions in the world, the EU domestic sugar market can be characterized as a saturated market. During the 1990s EU sugar consumption has remained relatively stable around 12.7 MMT white sugar (13.8 MMT raw sugar equivalent) annually, with a modest increase of 0.8 percent per year recorded over the period 1997/98 to 2000/01. At present, per capita consumption of white sugar equals about 34 kg per year. Health concerns, as well as the availability of alternative sweeteners, prevent sugar consumption from increasing substantially. Although the use of isoglucose has gradually replaced a part of EU sugar use, sugar still represents about 80 percent of all sweetener consumption in the EU. A continued expansion in the use of isoglucose is made impossible through a system of isoglucose production quotas (see Policy). EU inulin syrup output is also subject to production quotas, but these annual quotas have not been filled to date.

Generally, Southern EU countries (Italy, Spain, Portugal) consume much less sugar (less than 30 kg of white sugar per capita per year) than Northern EU countries. EU countries known to consume the most are Belgium, Austria, Denmark, Ireland and Sweden. It should be noted that these calculations of sugar consumption per capita include industrial consumption, i.e., sugar use by the food industry, without taking account of intra-EU exports of sugar-containing products. It is estimated that 70 percent of sugar use is in the form of processed products, whereby sugar represents less than 5 percent of the final product. See Table 4 for a distribution of sugar consumption by EU member state during 1998/99-2000/01.

Table 4: Sugar consumption in the EU-15, 1,000 MT of raw sugar 1/

Member state	1998/99	1999/2000 prelim.	2000/01 estim.
Denmark	259	266	270
Germany	2,947	2,993	3,044
Greece	337	333	333
Spain	1,348	1,378	1,391
France	2,354	2,366	2,375
Ireland	148	147	147
Italy	1,603	1,534	1,522
Netherlands	676	698	707
Austria	337	336	334
Portugal	361	355	353
Finland	228	242	245
Sweden	410	408	408

Belgium/Lux.	566	591	602
U.K.	2,309	2,377	2,402
Total EU-15	13,883	14,024	14,131
+ net trade in sugar-containing products 2/	500	500	500
Total domestic consumption	14,383	14,524	14,631

Source: 1998/99 and 1999/2000: European Commission; 2000/01: own estimates
1/ Data in white sugar equiv. were converted to raw sugar equiv. by multiplying by 1.087.
2/ per FAS/Washington reporting instructions, sugar-containing products are excluded from the trade data; therefore dom. consumption includes 0.5 MMT to account for net trade in sugar-containing products.

Consumption - Consumption of sugar by the chemical industry

The EU grants production refunds for products (raw sugar, unprocessed isoglucose, and sucrose syrups) which are used in the manufacture of certain products of the chemical industry. Some examples of chemical products are: glycerol, pharmaceutical products, glues, enzymes, plastic materials, cellulose esters, and ethers. Effective April 1, 2001 the quarterly production refund granted to the chemical industry in the EU for using high-cost EU sugar was set at EUR 38.408/100 kg of white sugar, 16 percent lower than during the same quarter of the year 2000. The decrease is not surprising, given that refund levels are calculated by taking the average export refund for sugar as determined by the weekly tender results over a certain reference period and deducting a standard amount. During the first quarter of 2001, average sugar export subsidy levels have gone down in comparison with the same period in 2000. See Export Policy.

The chemical industry obtains production refunds as a compensation for the competition it suffers from duty-free imports of chemical products. It views the higher subsidy as an encouragement to not relocate production facilities to lower-cost areas outside the EU. Use of sugar by the chemical industry totaled 250,000 MT in 1996/97 (July-June), increasing to 260,000 MT in 1997/98 and to 314,000 MT in 1998/99. EU budget expenditure on refunds on sugar used in the chemical industry amounted to EUR 128 million in financial year 1999, while appropriations for financial year 2001 are set at EUR 124 million. It should be noted that the EU net contribution to total expenditures on production refunds is restricted to 60,000 MT, the remainder being paid by the EU sugar industry through producer levies. The European Commission has proposed to abolish the exemption from the production levy for a quantity of 60,000 MT on the start of the new sugar regime on July 1, 2001. See Policy - The future of the EU sugar regime.

Consumption - Use of sugar in non-Annex I products

Sugar is one of the 5 basic products used as a raw material in the manufacture of "non-Annex I products". Non-

Annex I products are products resulting from processing beyond first-stage processing, such as chocolate, cookies, ice cream, chemicals and spirits. These products also benefit from export subsidies, the actual level of the export subsidy being determined by the amount or weight of basic or assimilated products used as a raw material. In financial year 1999, about 40 percent of the non-Annex I budget was taken up by sugar-based products.

Like other agricultural products, non-Annex I products are subject to GATT constraints with regard to budgetary outlays for export subsidies. In 2000/01, expenditures on export subsidies cannot exceed EUR 415 million. These restrictions, combined with the necessity for the European Commission to operate its farm policy within strict budgetary limits as of 2000, have resulted in concrete measures to reduce export subsidies for non-Annex I products. First, the number of products qualifying for export refunds has been reduced, Furthermore, subsidy levels granted for certain products have been decreased. Also, the increased use of inward processing will serve as an instrument to save on export subsidy expenditures. To date, the application rules of the inward processing facility have, however, not been adopted.

Trade

Trade - Imports

Given the high level of the Common Customs Tariff, imports of sugar into the EU primarily consist of preferential imports, i.e., duty-free imports or imports benefitting from a reduced duty (see Policy-Import Policy). Apart from guaranteeing sufficient raw material supplies to EU sugar refineries, the preferential trade links between the EU and ACP countries provide the ACP countries concerned with a steady income. This common interest of the EU and the ACP countries in maintaining the "Sugar Protocol" to the Lome Convention was reconfirmed in the ACP-EU Partnership Agreement, signed in Cotonou in June 2000.

Sugar imports into the EU during the period October 1, 1999-September 30, 2000 are listed in Annex I. In comparison with the same period in 1998/99, imports decreased by 4 percent to 1.786 MMT raw sugar equivalent. The five main countries of origin in 1999/2000 were as follows: Mauritius 428,000 MT, Guyana 228,000 MT, Fiji 199,000 MT, Swaziland 175,000 MT, and Jamaica 154,000 MT. Combined, these five countries represented 66% of total third country imports into the EU.

Trade - Exports

EU sugar exports to third countries consist of both subsidized and unsubsidized exports. In 1999/2000, total sugar exports increased by 15 percent to 6.14 MMT (raw sugar equivalent). The main part of the increase was due to a rise in unsubsidized C-sugar exports. Given the bumper EU beet crop, C-sugar supplies had risen to 5.47 MMT raw sugar (3.66 MMT in 1998/99). C-sugar has to be sold to third countries before January 1 following the end of the marketing year in which it was produced. Although exports went up substantially, the increase was not as large as previously forecast. Very low international prices during 1999/2000 resulted in some EU exporters holding off on exports until market prospects improve. Subsidized exports of EU sugar decreased in 1999/2000.

The 10 largest destination markets for EU sugar in 1999/2000 were: Algeria 823,000 MT (raw value equivalent), Syria 477,000 MT, Israel 468,000 MT, U.A.Emirates 362,000 MT, Libya 262,000 MT, Iraq 216,000 MT, Nigeria 212,000 MT, Switzerland 198,000 MT, Jordan 184,000 MT, and Norway 181,000 MT. See the Annex for more details.

Given the high C-sugar supplies in 2000/01, EU sugar producers will be forced to sell large volumes on the world market during the current marketing year 2000/01. Sugar exports are estimated to augment by 460,000 MT (raw sugar equivalent) to 6.6 MMT, the main part of the increase accounted for by a forecast growth in "C-sugar" exports, i.e. exports not benefitting from export subsidies. Subsidized exports, on the other hand, may decrease again in 2000/01, as license issuing for the exports of subsidized sugar has been substantially lower so far this marketing year. See Export Policy.

Although 2000/01 international sugar prices have risen in comparison with the record-low levels of 1999/2000, some EU sugar exporters are still experiencing severe financial difficulties. In the case of subsidized exports, high export subsidies are needed to bridge the gap between EU sugar prices and prices quoted on the world market. Based on the calculation method used, EU subsidies are only partially covering the actual price gap. Profit margins on unsubsidized exports, the main part of total EU sugar exports, have also fallen substantially as a result of fierce competition on the world market. Over the last several years, EU sugar exporters have lost considerable market share in a number of African countries, mainly to the advantage of Brazilian sugar suppliers. Also, some traditional destination markets for EU white sugar in the Middle East have gradually turned to local refinery supplies. Iran and Saudi Arabia in particular have gradually decreased their sugar purchases from the EU.

Stocks

Sugar stocks in the EU consist of free (unregulated) stocks, minimum stocks and C-sugar supplies which are carried forward to a next marketing year.

A system of minimum stocks has been in place since 1974. Since December 1996, beet sugar manufacturers have to hold 3 percent of actual production of the previous 12 months and refiners of preferential sugar have to hold 3 percent of the quantity refined in the previous 12 months. Moreover, processors are allowed to carry over up to a maximum of 20 percent of their A quota into the following sugar production year. This carried-over sugar may not be sold until the following year and is eligible for storage refunds. The current sugar regime provides for a Storage Costs Equalization Scheme (SCES) which, to a large extent, is budget-neutral: storage levies paid by sugar producers are reimbursed through the sugar storage refund payable to beet factories, specialized sugar traders, and intervention agencies. According to the latest EU Commission reform proposal, both the minimum stock requirement and the storage cost reimbursement scheme will be abolished as of 2001/02. See Policy - The future of the EU sugar regime.

The bumper EU beet crop in 1999/2000 has resulted in a 22-percent rise in total ending stocks. In 2000/01, stocks are expected to be built off, resulting in a 23-percent drop in sugar stocks at the end of the marketing year. The decrease results from lower sugar output, a rise in sugar exports, and a small increase in domestic consumption. Uncertainty over the common market organization of the sugar sector in general, and the storage cost reimbursement scheme in particular, has encouraged exporters to sell as much sugar as they can. Also, the amount of C-sugar carried over into 2001/02 is expected to fall by 640,000 MT of white sugar in comparison with the carry-over into the current marketing year. In 2001/02, sugar stocks are expected to continue to fall, primarily due to a 10-percent lower beet crop forecast.

Policy

Policy - General

The basic tools of the EU's sugar policy are: 1) import restrictions with limited free access for certain suppliers; 2) internal support prices that ensure returns to producers for a fixed quantity of production and permit the maintenance of refining capacity; and 3) export subsidies for a quantity of domestically produced sugar.

Policy - Production Policy

EU member states allocate an “A quota” and a “B quota” to each sugar-producing operation, each isoglucose-producing operation and each inulin syrup-producing operation established in their territory. Quota levels for sugar, isoglucose, and inulin syrup, applicable for marketing year 2000/01 are listed in Tables 5, 6 and 7, respectively. For the three products combined, 2000/01 quotas are 498,799.6 MT below the levels that had been in place since the accession of Austria, Sweden and Finland to the EU. The Common Market Organization of the sugar sector can adjust the guaranteed quantities under "A" and "B" sugar production quotas. Coefficients to use for the implementation of the actual adjustment procedure per product and by EU member state are listed in Council Regulation 2038/1999 of September 13, 1999. The lowering of quotas according to this procedure was applied for the first time in marketing year 2000/2001, the last year of the GATT Uruguay Round implementation period. The decision to lower quotas by 498,799,6 MT was the outcome of a forecast of production, imports, consumption, storage, carryover, exportable balance and average loss likely to be borne under the self-financing scheme. The GATT Uruguay Round Agreement requires that budgetary outlays on subsidized exports of sugar in 2000/2001 be capped at EUR 499.1 million. At a subsidy level of EUR 500/MT, this would imply that subsidized exports in 2000/01 would have to decrease to 1MMT, much lower than the level notified to the WTO for 1998/1999 (1.546 MMT). Subsidized exports being limited to the amount of "A" and "B" sugar that cannot be absorbed by the domestic market, could only be reduced by a decrease in the guaranteed quotas.

“C sugar”, “C isoglucose” and “C inulin syrup” refer to any quantity of sugar, isoglucose or inulin syrup which is produced outside the sum of total A and B quotas.

Table 5: EU sugar production quotas for MY 2000/01 1/

Member state or region	A sugar quota (MT white sugar)	B sugar quota (MT white sugar)
Belgium/Luxembourg	657,903.1	141,255.5

Denmark	314,988.0	92,795.9
Germany (former F.R.G.)	1,908,880.4	587,352.6
Germany (former G.D.R.)	621,300.2	191,173.0
Greece	284,092.3	28,409.3
Spain	947,345.3	39,472.9
France (metropolitan)	2,458,016.6	728,987.1
France (overseas departments)	426,770.2	45,613.3
Ireland	178,292.4	17,829.3
Italy	1,280,546.5	240,830.0
Netherlands	664,463.4	175,264.4
Austria	305,685.0	71,350.0
Portugal (continental)	62,525.4	6,252.6
Portugal (Azores)	8,905.8	890.4
Finland	130,715.0	13,071.3
Sweden	329,511.7	32,950.6
United Kingdom	1,018,813.8	101,881.2
Total	11,598,755.1	2,515,379.4

1/ White sugar means sugar, not flavored or colored or containing any other added substances, containing, in the dry state, 99.5% or more by weight of sucrose, determined by the polarimetric method.
Source: Commission Regulation 2073/2000 of September 29, 2000, L 246, page 38.

Table 6: EU Isoglucose production quotas for MY 2000/01 2/

Member state or region	A isoglucose quota (MT dry matter)	B isoglucose quota (MT dry matter)
Belgium/Luxembourg	54,427.0	14,967.0
Denmark	0.0	0.0
Germany (former F.R.G.)	27,846.7	6,558.2
Germany (former G.D.R.)	0.0	0.0

Greece	10,144.8	2,389.2
Spain	73,350.0	7,824.0
France (metropolitan)	15,280.4	3,977.1
France (overseas departments)	0.0	0.0
Ireland	0.0	0.0
Italy	15,975.1	3,762.1
Netherlands	7,159.8	1,686.3
Austria	0.0	0.0
Portugal (continental)	7,803.8	1,837.8
Portugal (Azores)	0.0	0.0
Finland	10,615.1	1,062.0
Sweden	0.0	0.0
United Kingdom	20,854.7	5,562.6
Total	243,457.4	49,626.3

2/ Isoglucose means the product obtained from glucose or its polymers with a content by weight in the dry state of at least 10% fructose.
Source: Commission Regulation 2073/2000 of September 29, 2000, L 246, page 38.

Table 7: EU Inulin syrup production quotas for MY 2000/01 3/

Member state or region	A inulin syrup quota (MT dry matter)	B inulin syrup quota (MT dry matter)
Belgium/Luxembourg	169,685.2	39,961.0
Denmark	0.0	0.0
Germany (former F.R.G.)	0.0	0.0
Germany (former G.D.R.)	0.0	0.0
Greece	0.0	0.0
Spain	0.0	0.0
France (metropolitan)	19,366.9	4,561.3

France (overseas departments)	0.0	0.0
Ireland	0.0	0.0
Italy	0.0	0.0
Netherlands	63,935.3	15,058.5
Austria	0.0	0.0
Portugal (continental)	0.0	0.0
Portugal (Azores)	0.0	0.0
Finland	0.0	0.0
Sweden	0.0	0.0
United Kingdom	0.0	0.0
Total	252,987.4	59,580.8

3/ Inulin syrup means the immediate product obtained by hydrolysis of inulin or oligofructoses, containing in the dry state at least 10% fructose in free form or as sucrose.
Source: Commission Regulation 2073/2000 of September 29, 2000, L 246, page 38.

Administered prices have been fixed since the 1994/95 marketing year. The official sugar prices applicable for marketing year 2000/01 are listed in Table 8. The "minimum price" refers to the price sugar manufacturers are obliged to pay for the purchase of beet for processing into sugar.

The intervention price is increased for the areas of the EU considered to produce less sugar than their consumption needs. Presumably this encourages beet production in these areas. For the deficit areas of the EU, the derived intervention prices for white sugar in 2000/01 are: EUR 64.65/100 kg for all areas in the United Kingdom, Ireland, Portugal and Finland; and EUR 64.88/100 kg in Spain.

Table 8: Official prices in the EU sugar sector

	Marketing year 2000/01
Basic price for beet (1)	EUR 47.67/MT
Minimum price for A beet (2)	EUR 46.72/MT
Minimum price for B beet (3)	EUR 28.84/MT (3)
Intervention price for white sugar (4)	EUR 63.19/100 kg
Target price for white sugar	EUR 66.50/100 kg

Intervention price for raw sugar	EUR 52.37/100 kg
Monthly reimbursement of storage costs	EUR 0.33/100 kg

(1) delivered at the collection center
(2) 98% of the basic price for beet
(3) 60.5% of the basic price for beet; see Commission Regulation 1930/2000 of September 12, 2000. Generally, the minimum price for B beet is 68% of the basic price for beet, except where Article 33(5) of Regulation (EEC) No 2038/1999 is applied (Refers to the possibility of a further reduction in the minimum price for B beet in concurrence with an increase in permitted B levy. This occurred in 2000/01).
(4) for non-deficit areas.

Since 1986/87 EU producers have borne the full financial responsibility for disposal of their production which exceeds internal consumption on an annual basis. Production levies are charged to recoup for the Community budget the cost of export subsidies for quota sugar exports to the world market. Producers pay, to the competent EU member state authorities, a basic production levy of 2 percent of the intervention price (white sugar) on their A and B sugar volume and a B levy of up to 37.5 percent on their B sugar volume. Supplementary levies may also be set if these are not sufficient to dispose of surpluses.

In all three marketing years 1998/99, 1999/2000, and 2000/01, the European Commission set the "B-quota" production levy at its maximum level of 37.5 percent. Given that the cost of export subsidies granted during 1998/99 exceeded the sum raised by the production levies, the EU Commission set supplementary levies that increased the total funding by 16.52 percent. The high levels of export subsidies granted during 1999/2000 again necessitated the setting of supplementary levies that increased the total funding for 1999/2000 by 18.506 percent. Before the end of September 2001, the EU sugar management committee will adopt the final level of production levies needed to finance 2000/01 export subsidies. Given that export subsidies are expected to decrease in 2000/01 (see Export Policy), additional levies may not be necessary.

The producer levies ensure that the EU sugar system is self-financing to a large extent. Community funding is, however, provided for export subsidies for a quantity of sugar equal to the EU's "preferential imports" (see Import Policy).

Any quantity of sugar, which is produced outside the sum of total "A" and "B" quotas is called "C-sugar". According to EU legislation, "C-sugar" must be sold on the world market without export subsidies or carried over to the following marketing year. Penalties apply in cases where C sugar is disposed of contrary to the regulations in force. After having produced 5.473 MMT (raw sugar equivalent) of "C-sugar" in 1999/2000, current estimates for 2000/01 show an overshoot of total "A" and "B" sugar production quota of 5.164 MMT. See Table 9 for details per EU member state.

Table 9: C-sugar supplies by EU member state, 1999/2000 & 2000/01
(1,000 MT raw sugar value)

	1999/2000	2000/01 estimates
Denmark	185	183

Germany	1,174	1,383
Greece	0	60
Spain	312	257
France	1,944	1,773
Ireland	33	45
Italy	378	317
Netherlands	267	327
Austria	189	105
Portugal	5	0
Finland	22	29
Sweden	105	95
Belgium/Lux.	314	245
U.K.	545	347
Total	5,473	5,164

Source: European Commission

Policy - National Aids

In order to compensate for the difficulties in maintaining beet and cane production in certain regions of the EU, some member states are authorized to grant national aids expressed as a EURO amount per 100 kilograms of white sugar. Beet growing in the South of Italy is considered indispensable in order to regenerate soils with a particularly high level of clay. Aids will also help streamline production structures and modernize factories. In Spain, national aids for a limited quantity of sugar cane production, mainly used for rum production, discourage growers from turning to other, more profitable, arable crops. The U.K. government is authorized, to the extent that it deems necessary, to grant adjustment aid for the refining of preferential unrefined cane sugar.

National aids in the sugar sector need to be gradually phased out until MY 2001/02, when they will be abolished. See Table 10 for an overview of national aids

Table 10: National adjustment aids in the sugar sector, 1995/96-2000/01,
EUR/100 kilograms of white sugar, maximum amounts

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01

Northern Italy (aid available to sugar beet producers)	8.15	5.43	3.80	2.17	1.09	-
Central Italy (aid available to sugar beet producers)	8.15	5.43	4.35	3.26	2.17	-
Southern Italy (aid available to sugar beet producers and sugar processors)	8.15	7.61	7.06	6.52	5.98	5.43
Spain (aid available to sugar beet producers)	8.67	5.43	4.35	3.26	2.17	-
Spain (aid available to sugar cane producers)	7.25	7.25	7.25	7.25	7.25	7.25
U.K. (aid available to refiners of preferential cane sugar)	0.54	0.54	0.54	0.54	0.54	0.54

Source: Council Regulation 1101/95 of April 24, 1995, Official Journal of the European Communities, L110, of May 17, 1995, page 1.

Council Regulation 2613/97 of 15 December 1997 authorizes Portugal to grant diminishing state aid to sugar beet producers for the 3 marketing years 1998/99 to 2000/01. The aid is intended to favor the expansion of sugar beet production in continental Portugal. Since July 1, 1995, the Portuguese production quota for A and B sugar has been 70,000 MT, much higher than actual beet production. At the start of the 1997/98 marketing year, a refining establishment with Community financial assistance has become operational in Portugal, which should encourage Portuguese beet growers to expand production. The maximum amount of state aid is as follows: EUR 6.21/100 kg of white sugar for 1998/99, EUR 4.66/100 kg for 1999/2000, and EUR 3.11/100 kg for 2000/01.

France is permitted to grant national adaptation aid to sugar cane growers in its overseas departments (Guadeloupe, Martinique, Reunion and French Guyana). The aid cannot be greater than EUR 6.04/100 kg white sugar equivalent and is restricted to the volume of “A sugar” produced.

Policy - Import policy

All products covered by the common organization of the markets in the sugar sector are subject to the rates of import duty listed in the Common Customs Tariff. It should be noted, however, that additional import duties may be set in order to prevent or counteract adverse effects on the EU market. Since July 1, 1995, a system of additional duties increasing in line with the difference between the world import price and the trigger price has been in place. The trigger prices below which an additional duty may be imposed are notified by the EU to the WTO. Additional duties currently (effective March 30, 2001) applicable to imports of sugar are EUR 4.01/100 kg for raw cane sugar for refining and EUR 7.82/100 kg for white sugar.

Common Customs import tariffs from 7/1/00 onwards have been EUR 33.9/100 kg for raw sugar for refining and EUR 41.9/100 kg for other raw sugar and refined sugar.

The majority of third country sugar shipped to the EU is, however, imported under special import quota: “Preferential sugar” can be imported at zero duty. The total duty-free import quota amounts to 1,304,700 tons (white sugar equivalent), of which 10,000 tons for cane sugar originating in India and 1,294,700 tons for cane sugar originating in the countries listed as beneficiaries of Protocol 8 of the Lome Convention (Barbados, Belize, the Republic of the Congo, Fiji, Guyana, Ivory Coast, Jamaica, Kenya, Madagascar, Malawi, Mauritius, Suriname, St.Christopher & Nevis, Swaziland, Tanzania, Trinidad & Tobago, Uganda, Zambia, Zimbabwe). Upon the expiration of the Lome Convention, the trading arrangements with the listed ACP countries were reconfirmed in the ACP-EU Partnership Agreement, signed in Cotonou in June 2000. The purchase price for Preferential Sugar is negotiated annually between the EU and the ACP states. In practice, this price has been equivalent to the derived intervention price for raw sugar in the U.K. Preferential imports provide a guaranteed income to ACP states, the EU being committed to buy at the guaranteed price through the Intervention Agencies in case no other buyer can be found. Buying through intervention agencies has not occurred to date.

The European Community has also undertaken to open on an annual basis (during the period July 1, 1995-June 30, 2001) a special tariff quota (in 2 tranches) for the imports of raw cane sugar for refining which originates in certain ACP states (same as above) or in India. These imports are often referred to as “Special Preferential Imports”. A special reduced rate of duty applying to these imports is fixed on an annual basis. For the marketing year 2000/01, the reduced rate of duty is set at EUR 54.10/MT of standard quality raw sugar. EU refiners which want to participate in this special reduced duty system must pay a minimum purchase price to the countries of origin concerned of EUR 49.68/100 kg of standard quality raw sugar. Only 4 EU member states are authorized to import under the quota: Finland, continental France, mainland Portugal, and the United Kingdom. Two separate tranches of import quotas have been opened during 2000/01, totaling 294,000 MT of white sugar equivalent. The first quota covered the period July 1, 2000-February 28, 2001, for a volume of 210,000 MT, of which 10,000 MT originating in India. The second quota, for a total quantity of 84,000 MT, was opened for the period March 1-June 30, 2001. The exact level of the quota depends on the supply needs of the refineries. Maximum supply needs (MSN) have been established through Commission Regulation 2073/2000. As of MY 2000/01, MSN amount to 1,770,635 MT white sugar equivalent, of which 59,718 MT for Finland, 295,603 MT for continental France, 290,627 MT for mainland Portugal, and 1,124,687 MT for the U.K. The MSNs have to be met by imports from the French overseas departments, the Preferential Imports, and imports under the mfn quota (see below). Any balance remaining after these imports, must be met by "Special Preferential Imports".

In addition to preferential and special preferential imports, the Commission also sets an annual tariff quota, called “mfn quota” for the supply of raw cane sugar to Community refineries. Following the accession of Finland, the EU has undertaken to import, as from January 1, 1996, a quantity of raw cane sugar from third countries and intended for refining at a reduced duty of EUR 98/MT. For the period July 1, 2000 to June 30, 2001, the quota was fixed at 85,463 MT of “tel quel” raw cane sugar. The quota allocation by country of origin is as follows: Cuba 58,969 MT, Brazil 23,930 MT, other third countries 2,564 MT.

Actual imports under special quota during the period October 1-September 30, 1999/2000, broken down by country of origin, are shown in the Annex to this report.

Import Policy - Everything but Arms Initiative

At the end of February 2001, the EU General Affairs Council adopted the "Everything but Arms (EBA) proposal", originally submitted by Directorate-General Trade of the European Commission. According to this proposal, quotas and duties are eliminated on all products except arms from the 48 poorest countries in the world (LLDC). The original proposal, submitted in September 2000, intended to start implementation immediately after adoption, with the exception of a gradual implementation over three years for bananas, sugar and rice. Fierce opposition from Directorate-General Agriculture and the agricultural sectors concerned led to several amendments agreed to in the end. For sugar in particular, it was argued that EU budgetary implications needed to be taken into account, and market assessment studies needed to be carried out before member states could agree to the proposal.

The approved version of the EBA proposal is laid out in Council Regulation 416/2001 of February 28, 2001. It provides for free access for sugar through a process of progressive tariff elimination starting in 2006, when the current EU financial guidelines expire, and leads to full liberalization in 2009. Common Customs Tariff duties on the products of tariff heading 1701 (i.e., cane or beet sugar and chemically pure sucrose, in solid form) will be reduced by 20 percent on July 1, 2006, by 50 percent on July 1, 2007, and by 80 percent on July 1, 2008. They will be entirely suspended as from July 1, 2009. From July 1, 2001 till July 1, 2009, the EU Commission will open zero-duty tariff quotas for raw cane sugar for refining, initially amounting to 74,185 MT white sugar equivalent and increasing by 15 percent in each subsequent marketing year (July-June). Initial quota amounts are based on best export levels of LLDC to the EU in the recent past.

Market assessment studies, both from the European Commission and from the sugar sector have shown that once duties are removed there is a real danger for EU sugar imports from LLDC to grow considerably. Attracted by the high prices for sugar in the EU some LLDC may export a maximum of domestically produced sugar to the EU while covering domestic needs by importing low-priced sugar from the world market. Some ACP states, which currently benefit from supply arrangements with EU cane sugar refineries at high guaranteed prices, may see their export volumes displaced by more attractively priced sugar from LLDC. According to the current common market organization for sugar, additional EU sugar imports will lead to higher EU budgetary expenditures on export subsidies. With total expenditures and volumes of subsidized exports restricted under WTO rules, only a reduction in A and B production quotas can make the EU stay within WTO limits. Consequently, producer levies will reduce and a larger portion of total EU export subsidy expenditures will have to be financed from the EU budget.

In order to alleviate all of the above concerns, the European Council has inserted a safeguard clause in the regulation stating that preferences may be suspended if imports cause serious disturbance to the Community markets and their regulatory mechanisms. Preferences would then be suspended according to the procedure generally applicable under the scheme of generalized tariff preferences (GSP). Furthermore, the regulation contains a "temporary withdrawal clause", which would reintroduce common customs tariff duties in case of fraud or failure to provide administrative cooperation as required for the verification of certificates of origin, or massive imports into the EU from LLDC in relation to their usual levels of production and export capacity.

Although full trade liberalization with LLDC is still 8 years away for sugar, EBA has complicated the ongoing debate about reform of the EU sugar regime. See below.

Policy - Export policy

Since marketing year 1995/96, subsidized exports of sugar to third countries are limited, in volume and in value, under the GATT Uruguay Round Commitments of the EU. The EU's export subsidy commitments for sugar up to the year 2000/01, together with actual exports through to 1998/99 are shown in Table 11. Note: The Community did not make an export subsidy commitment on its subsidized exports of a quantity of sugar equal to its preferential imports; the cost and volume of those export subsidies (on average 1.6 MMT) are not included in the table.

Table 11: EU export subsidies 1995/96-2000/01, annual commitments versus actual subsidized exports

MY (Oct-Sept.)	Volume (1,000 MT white sugar equivalent)		Budget (million EUR)	
	Annual commitment	Actual subsidized exports	Annual commitment	Actual subsidized exports
1995/96	1,555.6	856.3	733.1	379.0
1996/97	1,499.2	1,200.3	686.3	525.0
1997/98	1,442.7	1,699.1	639.5	779.0
1998/99	1,386.3	1,546.1	592.7	794.8
1999/2000	1,329.9	n.a.	545.9	n.a.
2000/2001	1,273.5	n.a.	499.1	n.a.

Source: Schedule CXL: European Communities, Part IV Agricultural Products

Although the official data notified to the WTO, pertaining to MY 1999/2000, are not yet available, it appears that annual WTO limits for 1999/2000 have not been exceeded. Therefore, "roll-over" of non-allocated subsidized exports of former GATT years has probably not occured in 1999/2000. In 1997/98 and 1998/99, non-allocated outlays and volumes for preceding GATT years were used.

Total license issuance under free market tenders equaled 2.6 MMT between August 1999 and July 2000. Deducting 1.6 MMT to account for the volume of sugar for which no export subsidy commitments were made by the EU, leaves about 1 MMT of subsidized sugar exports. This is 300,000 MT less than the annual WTO ceiling for 1999/2000. Average subsidy levels increased to EUR 518.88/MT (from EUR 509.76/MT in 1998/99). Up until March 2000, it looked as if subsidized exports in 1999/2000 were going to exceed 1998/99 levels, both in volume (+17 percent) and in terms of budgetary expenditure. However, from April 2000 onwards, export subsidies started to decrease due to improving world market prices for sugar. Demand for export licenses for A- and B-sugar fell accordingly because exporters gave priority to exports of C-sugar, which has to be sold on the world market without export subsidies.

So far, during the open market tender series of 2000/01 (August 2, 2000-March 28, 2001), the European Commission has awarded export licenses for 1.6 MMT of white sugar, 32 percent lower than the level awarded during the same period of 1999/2000 (2.37 MMT). The average export subsidy level so far during 2000/01, i.e., EUR 417.80/MT, has also decreased by 20 percent vis-a-vis 1999/2000. The reason behind this development is reportedly the same as applicable during the last quarter of 1999/2000: when world market prices are perceived as relatively attractive during a certain period, exports of C-sugar are given priority. C-sugar has to be sold at world prices for lack of any export subsidy applying to it. As described above (see Stocks), C-sugar exports are expected to rise considerably during 2000/01 owing to uncertainty about the future of the storage cost reimbursement scheme.

In 2000/01, the last year of the GATT implementation period, "roll-over" of non-allocated subsidized exports of former GATT years is prohibited. This means that subsidized exports of sugar in 2000/01 will be limited to 1,273,500 MT in volume and EUR 499.1 million in terms of expenditure. Given the relatively slow pace in export license issuance and the reduction in subsidy levels from the previous year, the EU is expected to stay within its WTO limits for 2000/01.

Policy - The future of the EU sugar regime

The current EU sugar regime is due to expire on June 30, 2001. According to EU regulations, by January 1, 2001 at the latest, the European Council had to adopt the arrangements to apply from July 1, 2001 onward to the production of sugar, isoglucose and inulin syrup. To date (early April 2001), this has not happened yet. It is expected that the Agricultural Council of April 24/25, 2001 will decide on next year's sugar regime if the European Commission submits a proposal for prolongation of the current regime (including some amendments). In the absence of a European Commission proposal for prolongation, the European Council can only act on the basis of unanimity.

In mid-September 2000, the Agriculture Commissioner presented the Commission reform proposal to his fellow EU Commissioners. A majority of Commissioners objected formally to the draft proposal, several of them stating that the reform was not drastic enough, and did not sufficiently address the defects which the current market organization had given rise to over the last 30 years. The Agriculture Directorate-General then made some amendments to the draft proposal, and the final proposal was adopted early October 2000.

The (October 2000) reform proposal of the EU Commission contains four elements: 1) it maintains production quotas for a period of two years; from 2001/02 to 2002/03; 2) it keeps the system of autofinancing, whereby producer levies provide funding for subsidized exports; 3) it maintains the quota adjustment mechanism in order to respect WTO commitments on subsidized exports; 4) it maintains the system of preferential imports from ACP countries and India. The basic operation of the market organization would be unchanged, with institutional prices fixed at current levels rather than being decided on annually in the framework of the agriculture price package.

The changes in comparison with the current regime are five-fold: 1) the storage cost reimbursement scheme will be abolished; 2) the minimum stock requirement will be cancelled; 3) production quotas will be reduced by 115,000 MT from current levels in order to account for 50 percent of the structural supply surplus in the EU; 4) production refunds for sugar use by the chemical industry will become 100 percent financed through production levies; 5) existing legislation will be updated by recasting the rules and repealing outdated provisions, in line with the Community policy on simplification.

The European Commission has also committed itself to undertake a number of studies by July 1, 2002. These studies would provide more clarity on issues such as the socio-economic impact of the continuation or abolition of quotas, and the competition in major food sectors. Furthermore, the development of WTO new trade round negotiations, the EU enlargement process, and the budgetary situation of the Common Agricultural Policy will be important factors in the outline of a new sugar regime after July 1, 2003.

Since October 2000, several issues have come up, which complicate the EU Council adoption of the reform proposal. In November 2000, the European Court of Auditors (ECA) published a special report, wherein severe criticisms were uttered with regard to the high sugar costs passed on to the EU consumer. Furthermore, objections were formulated against the lack of environmental protection, the dependency of some ACP countries on cane sugar deliveries to the EU at guaranteed prices, and the fact that C-sugar profitability is dependent on cross-subsidization from A and B quota. In conclusion, the ECA report called for a drastic reform of the EU sugar regime at an earlier date than proposed in the original reform proposal of the European Commission. Reportedly, early copies of the ECA report had already circulated among several EU commissioners, encouraging them to put pressure on the Agricultural Commissioner to reduce the extension period of the current EU regime after 2000/01 from the original five to two years.

The two-year extension period, proposed in the October reform proposal, has met with fierce opposition since then. A majority of EU member states have openly expressed their satisfaction with the current system, wanting to keep the current common market organization in place until 2006, i.e., the end of the period for which the Berlin agreement set agricultural budget ceilings. The European Parliament also rejected the EU reform proposals, stating that the regime, which has operated satisfactorily for over 30 years, should be maintained in the present form until 2006. Given that the consultation procedure applies, the European Parliament's amendments are non-binding.

In between, the Everything but Arms Initiative (see above) was launched and adopted, which has disclosed a lot of information on EU budgetary implications of reducing the level of protectionism in the EU sugar sector.

Responding to reactions of the various parties involved, the Agriculture Commissioner has openly stated that he is prepared to accept an extension of the current regime for longer than the 2 years currently proposed, if the other amendments laid out in the proposal (see above) are accepted at the same time. He has now been given flexibility in the EU Council negotiations with regard to the validity period of the new regime. The Agricultural Council at the end of April 2001 represents the next step in the adoption procedure.

ANNEX: EU-15 IMPORTS AND EXPORTS OF SUGAR DURING 1999/2000

Notes:
1/ Source: EUROSTAT
2/ All figures in MT of raw sugar equivalent.
3/ Period: October 1, 1999-September 30, 2000.
4/ Effective January 1, 1997, EUROSTAT considers trade with Canary Islands and French Overseas Departments (Reunion, Martinique, Guadeloupe, French Guyana) as intra-EU trade. Therefore, trade data for

the period October 1, 1999-September 30, 2000, in the tables included herewith, do not contain trade with Canary Islands, nor with French Overseas Departments.

Table I: TOTAL SUGAR IMPORTS INTO THE EU-15, 1999/2000

Origin	IMPORTS (MT raw sugar equivalent)
ACP COUNTRIES UNDER SPECIAL QUOTA:	1,574,317
of which:	
Barbados	54,775
Belize	52,692
Congo	28,346
Fiji	189,867
Guyana	227,626
Ivory Coast	27,343
Jamaica	154,033
Kenya	2,088
Madagascar	20,609
Malawi	42,029
Mauritius	428,277
Surinam	0
St. Christopher & Nevis	17,244
Swaziland	175,484
Tanzania	16,670
Trinidad & Tobago	55,371
Uganda	0
Zambia	15,427
Zimbabwe	66,436
INDIA:	22,025

OTHER IMPORTS UNDER MFN:	145,502
of which:	
Cuba	65,468
Brazil	42,015
El Salvador	2,539
Dutch Antilles	13,314
Switzerland	1,937
Myanmar	3,587
Czech Republic	2,519
Paraguay	3,032
U.S.	1,064
Norway	5,042
Argentina	1,178
All others	3,807
ALL OTHERS (non-WTO members):	44,370
of which:	
Aruba	37,007
Bahamas	7,000
China	330
all others	33
GRAND TOTAL:	1,786,214

Table II: TOTAL SUGAR EXPORTS FROM THE EU-15, 1999/2000

Destination	EXPORTS (MT raw sugar equivalent)
Algeria	823,234
Syria	476,791
Israel	468,093
U.A. Emirates	361,960
Libya	262,116
Iraq	216,361
Nigeria	212,181
Switzerland	198,283
Jordan	184,091
Norway	181,425
Iran	169,003
Egypt	163,398
Tunisia	152,218
Sri Lanka	142,744
Lebanon	119,839
Mauritania	105,638
Indonesia	105,568
Guinea	72,961
Croatia	68,215
Kuwait	67,451
Albania	65,907
Uzbekistan	63,449
Estonia	62,019
Bosnia-Herzegovina	53,205
Angola	50,826
Togo	50,104

All others	1,241,002
GRAND TOTAL	6,138,082