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Committee on Budgets

2007/0086(CNS)

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OPINION

of the Committee on Budgets

for the Committee on Agriculture and Rural Development

on the proposal for a Council Regulation amending Regulation (EC) No 318/2006 on the common organisation of the markets in the sugar sector (COM(2007)0227 – C6-0177/2007 – 2007/0086(CNS))

Draftsman: László Surján

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SHORT JUSTIFICATION

1. Background of the proposal

The two proposals for regulations proposed by the Commission consist of an update of the two Regulations (EC) No 318/2006 and (EC) No 320/2006¹ which were part of the big sugar reform of 2005².

18 months later the measures have already been shown to be insufficient to achieve the reform goals until 2010 and have to be adapted, according to the Commission. The voluntary reductions on the part of producers have so far given a 2.2 million tonne decrease, nowhere near the 6 million tonne objective intended by the reform.

However, some Member States have reached the reform targets, in some cases even reducing their sugar quotas by half. Therefore, your draftsman believes that it is reasonable to focus the reform adjustment on those Member States where the sugar reform of 2005 failed.

The EU is under ongoing pressure from sugar producing countries like Brazil, Australia and Thailand and the World Trade Organization who accuse the European Union of violating, by its sugar regime, its obligations under the *WTO Agreement on Agriculture*³.

The purpose of the second proposal (amending Council Regulation (EC) No 318/2006 on the common organisation of the markets in the sugar sector) is to abolish the provision according to which traditional supply needs for refiners will be reduced in case of a withdrawal. Also, the proposal seeks:

- to introduce a system of thresholds – moving away from a system which reduces the level of sugar effectively produced under quota;
- to conclude a first decision before sowing takes place, possibly completed by a further withdrawal in October, based on updated data;
- to take account of those Member States who have participated in the restructuring regime. The threshold in those Member States should be adapted in proportion to the quota renounced, with a modulation between undertakings according to their individual restructuring effort.

By proposing this to the Council, the Commission hopes that producers will abandon the other 3.8 million tonnes foreseen until 2008/2009 and 2009/2010.

2. 2008 budget procedure -some figures

What will the EC sugar regime cost in total?

¹ OJ L 58 of 28.2.2006, p.1

² opinion of the committee on budgetary control for the committee on Agriculture and Rural Development on the proposal for a Council regulation on the common organisation of the markets in the sugar sector (COM(2005)0263 – 2005/0118(CNS)), Draftsman: Terence Wynn

³ World Trade Organisation, 28 April 2005, WT/DS265/AB/R, WT/DS266/AB/R, WT/DS283/AB/R - EUROPEAN COMMUNITIES – EXPORT SUBSIDIES ON SUGAR - Report of the Appellate Body: http://docsonline.wto.org/gen_search.asp?searchmode=simple

The expenditure of the Community on the sugar regime has effect on the two main chapters of Title 05 of the Budget, 05 02, Intervention in agricultural markets, and 05 03, direct aids:

Chapter Article	Activity	Budget 2007		PDB 2008		Difference 2008-2007	
		CA	PA	CA	PA	CA	PA
01	Administrative expenditure of Agriculture and Rural Development policy area	126,18	126,18	129,87	129,87	2,92 %	2,92 %
02	Interventions in agricultural markets	5 615,19	5612,26	5 003,37	5004,57	-10,90 %	-10,82%
	of which Sugar 05 02 05	323,0	323,0	441,0	441,0	36,53%	36,53%

Concerning 05 02 (Direct aids) the expenditure development is easily recognisable, as Chapter 05 02 05 deals with sugar. An increase in appropriations is expected in PDB 2008 in the sugar sector (EUR 118 million), a normal development, as the Commission states in the PDB, "during what is effectively a transition phase of the market organisation following the reform of 2005, in particular because export refunds will continue to apply and because it is expected that there will no longer be any intervention stocks to be sold onto the domestic market at a net gain to the budget."

A surprising effect of a reform, which, one would think, would have the opposite objective.

In detail, the expenditure on Article 05 02 05 is as follows (table 1):

Interventions in agricultural markets		Budget 2007 (in millions)		PDB 2008 (in millions)		DB 2008 (in millions)		Difference 2008 - 2007 (in millions)	
05 02 05 Sugar PDB 2008		CA	PA	CA	PA	CA	PA	Difference CA	Difference PA
05 02 05 01	Export refunds for sugar and isoglucose	419	419	440	440	406.7	406.7	21	21
05 02 05 03	Production refunds for sugar used in the chemical industry	33	33	p.m.	p.m.	p.m.	p.m.	-33	-33
05 02 05 08	Storage measures for sugar	-129	-129	1,0	1,0	0,924	0,924	130	130
05 02 05 99	Other measures (sugar)	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	0	0
	Subtotal 05 02 05	323	323	441	441	407.6	407.6	118	118

Although there is a temporary increase of EUR 118 million in 2008 compared to 2007, the sugar reform should normally have the effect that payments are shifted away from interventions into markets ("subsidising" -05 02) to Direct aids (05 03). In other words, what will be gained by reducing the domestic production will be spent on direct aids (fully decoupled from production) for producers and farmers, making the restructuring socially and environmentally acceptable.

In addition to this there is other expenditure related to sugar (table 2):

Interventions in agricultural markets		Budget 2007 (in millions)		PDB 2008 (in millions)		DB 2008 (in millions)		Difference 2008 - 2007 (in millions)	
05 02 05 Sugar PDB 2008		CA	PA	CA	PA	CA	PA	Difference CA	Difference PA

05 02 16	Sugar Restructuring Fund	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	0	0
05 03 01 03	Separate sugar payment	167	167	202	202	202	202	35	35
05 03 02 39	Additional amount for sugar beet and cane producers	20	20	30	30	30	30	10	10
21 06 03	Adjustment support for sugar protocol countries	165	50	149, 572	80	149. 6	80	-15.428	30
	TOTAL SUGAR	675	560	822. 572	753	789. 2	719. 6	147. 572	193

We note another increase of EUR 147.5 million in commitments and EUR 193 million in payments.

Concerning direct aids, as the Commission puts it in its PDB¹: "For direct aids, (05 03), the total appropriations for the chapter, EUR 37 213 million, are increased by EUR 334 million from 2007, after consideration for assigned revenue, the increase is mostly due to the increase in needs in EU-10 (+EUR 373 million), due to the increased phasing-in percentage, an increase in *sugar compensation* and the introduction of the energy crop payment, and in EU-2, the introduction of direct aids (+EUR 645 million). Other reasons for the increase are the *continued phasing-in of the compensation to sugar beet producers in EU-15 (+EUR 184 million)...*"

That is probably why the Commission states in the Financial Statement that the measure had "no financial impact". According to the Financial Statement attached to the proposal, the additional amounts for the restructuring aids can be financed within the Restructuring Fund whose principle of self-financing remains valid. The Fund would be fully spent with around 3.85 million tonnes of quotas renounced in year 3 (residual balance: around only EUR 54 million), according to the simulation of the financial situation of the Fund under these new rules. The Restructuring Fund will also need to be monitored closely. Therefore your draftsman would like to ask the Commission to provide further clarification of the "financial impact".

3. Conclusion

The Committee on Budgets will assess the fact that national quotas have been left in place. A true EU market will not therefore be achieved, thus probably artificially pushing up the price to the consumer and to the Budget. Also it has to be ensured that compensation and adjustment aids reach those in need, i.e. the smaller beneficiaries on lower incomes, and not those who have already made extensive profit margins from the system. The current rule of "first come first served" discriminates against small sugar growers and should, therefore be corrected.

This will be achieved by close monitoring by the three parliamentary committees involved (BUDG, CONT and AGRI) and cannot be decided by the legislator.

Amendments are not proposed regarding the OCM regulation (2007/0086(CNS)) but in the parallel regulation for a temporary scheme for the restructuring of the sugar industry (2007/0085 (CNS)).

¹ COM(2007)0300, Expenditure analysis by Policy areas, page 21

PROCEDURE

Title	Common organisation of the markets in the sugar sector
References	COM(2007)0227 - C6-0177/2007 - 2007/0086(CNS)
Committee responsible	AGRI
Opinion by Date announced in plenary	BUDG 21.6.2007
Drafts(wo)man Date appointed	László Surján 23.5.2007
Date adopted	17.7.2007
Result of final vote	+: 17 -: 0 0: 0
Members present for the final vote	Reimer Böge, Joan Calabuig Rull, Brigitte Douay, Salvador Garriga Polledo, Louis Grech, Nathalie Griesbeck, Catherine Guy-Quint, Jutta Haug, Anne E. Jensen, Vladimír Maňka, Mario Mauro, Francesco Musotto, Gérard Onesta, Gianni Pittella, Petre Popeangă, Esko Seppänen
Substitute(s) present for the final vote	Paul Rübig