

# EUROPEAN PARLIAMENT

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*Committee on Budgetary Control*

**2005/0118(CNS)**

4.10.2005

## **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 – C6-0000/2005 – 2005/0118(CNS))

Draftsman: Terence Wynn

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## SHORT JUSTIFICATION

1. The Commission is to be congratulated on its far reaching proposals for reform of the sugar market. However, some fine tuning is needed.

### Background

2. Already as far back as 1991, the Court of Auditors carried out an extensive study of the operation of the common market organization in sugar (special report 4/91 OJ N C290) and concluded that the system was inefficient and out of balance. It noted in particular that there were several major problems:
  - Oversupply
  - Inefficient production patterns: national quotas had frozen production patterns preventing the development of an efficient market and encouraged the production of sugar in areas not traditionally suited to beet production (above all in Southern Europe). And supposedly 'transitional measures' were still in place 'in the preservation and maintenance of vested interests' (special report 4/91, para 2.29 )
  - Cost of preferential imports to the agricultural budget, which the Court felt belonged in the Development aid budget
  - Self financing myth. The Court of Auditors challenged the notion that the sugar regime was budget neutral. The consumer was ultimately paying for the high EU sugar price
  - Non-monitoring of export refunds.
3. The Budgetary Control Committee then recommended that the 'nationalization of sugar quotas is contrary to the spirit and logic of the Community and that it impairs the efficiency of sugar production, thus leading to unnecessarily high budgetary expenditure and increased cost to the consumer' (PE 202.251/fin). However, the plenary did not endorse this approach.
4. Almost a decade later and after minimal changes to the sugar regime, the Court published a further report on the management of the Common Market Organisation for Sugar special report 20/2000 (2001/C/50/01).
5. The objectives of the 2000 audit were to obtain assurance that the management by the commission of the Common Market Organisation (CMO) for sugar was sound and to review the extent to which the specific objectives of the CMO as well as the overall objectives had been achieved. Overall the Court concluded that the sugar regime gave stability and a good revenue for beet growers, but high prices were imposed on the EU consumer and there was a structural production surplus and a highly regulated industry with little competition.
6. Following the publication of the Court's report, the Commission subsequently acknowledged that much of the information needed to prepare a long term reform of the CMO in sugar was still not available to it. It proposed to launch a number of studies on the sector.

7. Over many years throughout ongoing contacts with the various stakeholders in this sector it is to be noted that even those benefiting from the sugar regime were aware that change was needed and were expecting reform. They have been aware changes could intervene even in the short term. We have underestimated the capacity of those involved in this complex sector to adjust. We have had signals for nearly two decades that the system needed changing for numerous reasons and we have failed to give the right signals.
8. The Court of Auditors in its Annual Report 2001 paragraphs 2.90-2.103 (28.11.2002) was particularly critical of the Commission for failing to obtain the necessary information needed as background for its 2001 sugar proposals. In March 1999, the Commission launched an extensive evaluation study in preparation for its 2001 sugar proposals which proved inconclusive and was never used by the Commission. The Court said that given that it was decided in 1995 that the sugar regime would expire in 2001, the Commission should have ensured that basic information was available to it as it prepared the 2001 proposals. Once again, the EU clearly missed an opportunity to reform a beleaguered regime and send clear messages to stakeholders.
9. Five years on we finally have well researched, well balanced, far reaching proposals which aim to redress some of the imbalances in the sugar sector which have occurred over the last forty years.

#### The Commission's proposals

10. The Commission is to be congratulated on its proposed reforms. As the Budgetary Control Committee, however, we must be vigilant and assess whether sufficient mechanisms have been put in place to ensure the safe management of supplies from developing countries and that internal measures are financially sound and transparent. We must look carefully at the fact that national quotas have been left in place. A true EU market will not therefore be achieved, thus constantly pushing up the price to the consumer and to the Budget. We must also ensure that the compensation and adjustment aids reach those in need ie the smaller beneficiaries on lower incomes, and not those who already have made extensive profit margins from the system.

#### Management of external supplies

11. There are several potential problems in managing external sugar supply. First there is the question of swaps whereby sugar producing countries wish to export their entire sugar production onto the EU or world market and then subsequently import their entire consumption needs from a cheaper source. This is entirely legal, but must be monitored closely as under the Everything But Arms agreement (EBA), from 2009 the least developed countries (LDCs) will be able to export sugar freely onto EU markets. We must ensure that firstly LDCs export their own, and not imported sugar to the EU (which is clearly not legal) and also keep close track of production levels. The recent scandal concerning sugar exports from the Balkans is a clear example of the fraud possibilities. The preferential system was suspended in May 2003 when it was discovered that much of the sugar entering the EU did not originate from local production. Instead large quantities of imported sugar were being repackaged and exported to the EU.

12. It would be helpful for the Court of Auditors to look in particular at these areas and report to CONT on the adequacy of the Commission's proposals. The Commission should draw up clearer rules of origin for LDC produce and ensure close monitoring 'on the ground' of LDC exports to the EU.

#### Restructuring fund

13. From an internal point of view, the restructuring fund will also need to be monitored closely. The scheme seems excessively generous in providing upwards of 4 billion euros over 4 years. In the first year factory closures will be eligible for 730 euros/tonne. The Commission should provide a detailed explanation of the reasoning for these very high figures. From the perspective of financial transparency, actual recipients of EU compensation should be clearly visible to the EU taxpayer.
14. Moreover, it is imperative that farmers and not only factory shareholders benefit from the closure compensation.

### AMENDMENTS

The Committee on Budgetary Control calls on the Committee on Agriculture and Rural Development, as the committee responsible, to incorporate the following amendments in its report:

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Text proposed by the Commission<sup>1</sup>

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Amendments by Parliament

Amendment by Jan Mulder

Amendment 1  
Recital 29 a (new)

***(29a) In order to guarantee proper functioning of the Generalised System of Preferences, and compliance with the rules of origin, the information from beneficiary countries, as laid down in Article 17(2)(a) of Council Regulation (EC) No 980/2005 of 27 June 2005 applying a scheme of generalised tariff preferences <sup>1</sup>, shall entail also figures on the domestic sugar production and consumption of the country***

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<sup>1</sup> Not yet published in OJ.

***concerned, as well as their imports and exports of sugar.***

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<sup>1</sup> ***OJ L 169, 30.6.2005, p. 1.***

Or. en

*Justification*

*Beneficiary countries of the Generalised System of Preferences should be obliged to submit sufficient data, which will enable the Commission to investigate their compliance with the rules of origin.*

Amendment by István Pálfi

Amendment 2

Article 28, paragraph 1a (new)

***(1a) Tariff quotas shall be allocated to third countries on the basis of the core principle that such quotas cannot exceed the net balance of domestic production and consumption levels in those countries.***

Or. en

*Justification*

*It is absolutely necessary that tariff quotas granted to third countries do not exceed the difference between domestic production and consumption levels so as to avoid the emergence of fraudulent triangular trade in sugar with the European Community, as it was the case in the Western Balkans before the Commission imposed tariff quotas on sugar imports from that region under Regulation (EC) No 374/2005. Hopefully we can forestall illegalities of swap- dealings and other fraud.*

Amendment by Jan Mulder

Amendment 3  
Article 43 a (new)

***Article 43a***

***Rules of origin report***

***The Commission shall present an annual report to the Committee examining the compliance with the rules of origin by beneficiary countries of the Generalised System of Preferences.***

Or. en

***Justification***

*The Commission should submit an annual report to the Management Committee for Sugar in order to guarantee compliance with the rules of origin by beneficiary countries of the Generalised System of Preferences.*

Amendment by Terence Wynn

Amendment 4  
Article 43 b (new)

***Article 43b***

***Review***

***The Commission shall present a report assessing whether the measures set out in this Regulation have achieved the objectives of eliminating overproduction and eliminating subsidised exports of sugar. If these objectives have not been achieved, the Commission will bring forward further proposals aimed at achieving them. In its report the***

*Commission will also analyse progress to date in the creation of a free market in sugar and in particular the need to maintain national production quotas. The report shall be presented at a time no later than the end of the fourth marketing year to which the restructuring Regulation applies.*

Or. en



## PROCEDURE

<b>Title</b>	Proposal for a Council regulation on the common organisation of the markets in the sugar sector
<b>References</b>	(COM(2005)0263 – C6-0000/2005 – 2005/0118(CNS))
<b>Committee responsible</b>	AGRI
<b>Committee asked for its opinion</b> Date announced in plenary	CONT 12.07.2005
<b>Enhanced cooperation</b>	No
<b>Drafts(wo)man</b> Date appointed	Terence Wynn 12.07.2005
<b>Discussed in committee</b>	12.09.2005
<b>Date amendments adopted</b>	03.10.2005
<b>Result of final vote</b>	for: 15 against: 0 abstentions: 0
<b>Members present for the final vote</b>	Simon Busuttil, Mogens N.J. Camre, Paulo Casaca, Szabolcs Fazakas, Ingeborg Gräßle, Umberto Guidoni, Ona Juknevičienė, Jan Mulder, Bart Staes, Margarita Starkevičiūtė, Jeffrey Titford, Kyösti Tapio Virrankoski, Terence Wynn
<b>Substitutes present for the final vote</b>	Edit Herczog, Esko Seppänen