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Court of Auditors

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(Information)

COURT OF AUDITORS

SPECIAL REPORT No 20/2000

concerning the management of the common organisation of the market for sugar, together with the Commission's replies

(pursuant to Article 248(4), second subparagraph, of the EC Treaty)

(2001/C 50/01)

CONTENTS

EXECUTIVE SUMMARY

The objectives of the audit were to obtain assurance that the management by the Commission of the common market organisation (CMO) for sugar is sound and to review the extent to which the specific objectives of the CMO as well as the overall objectives of the CAP have been achieved.

The audit examined key areas in the management of the CMO for which the Commission could be held accountable. This report also reviews the outcomes of the CMO.

Both the EU and world sugar markets are characterised by a level of production which considerably exceeds demand. This has led to a sustained period of low world market prices and rising stocks.

In 1999, the gross annual budgetary cost of the CMO reached 2 100 million euro, of which 1 200 million euro was recovered through production and storage levies. There is a significant cost borne by the consumer through the price of sugar.

The basic principles of the CMO for sugar have changed little since 1968 and the CMO was not included in the 1992 or Agenda 2000 reforms of the common agricultural policy (CAP).

The main findings on the Commission's management are that:

(a) the Commission did not give adequate information justifying its proposal for the continuation of the quota arrangements in 1995, nor did it provide a comprehensive analysis of the state of achievement of the CMO's objectives despite the fact that extensive, although not complete, information on this was available to the Commission services; furthermore, the Commission did not present the likely impact of their proposals compared with other options; there was no assessment of the consequences of the regime for the consumer, nor of the impact on the environment (see paragraphs 18 to 31);

(b) the Commission's minimum beet price proposals are not based on independently verified information on the processing margin; the information which is used is not taken into account in a transparent way; the proposals are not presented in the context of information on the level of achievement of the stated objectives (see paragraphs 32 to 38);

(c) although the Commission has information available, it did not present an assessment of the likely consequences of the price proposals, nor justify them in relation to alternatives (see paragraphs 39 to 41);

(d) the economic importance to ACP countries, and in particular Mauritius, of access to the EU market at special conditions has created a strong dependence on the continuation of these preferential arrangements; however, the Commission does not properly consider the economic factors in its proposals for the ACP guaranteed sugar price (see paragraphs 42 to 45);

(e) the budgetary and GATT constraints have prompted the Commission to set lower rates for export refunds; previous arrangements, although transparent, had insufficient regard for economy (see paragraphs 46 to 52);

(f) procedures for tendering and deciding on export refunds should be reviewed (see paragraphs 53 and 54);

(g) the data used for the calculation of the production levies are insufficiently sound and efforts should be undertaken to use more reliable data as a basis (see paragraphs 55 to 58);

(h) there is no coherent strategy for the controls over sugar production and storage and there is no guidance on good practices to be followed or minimum standards to be attained (see paragraphs 59 to 63).

The review of the outcomes of the sugar regime finds that:

(a) many of the CAP and CMO objectives are being achieved (see paragraphs 71 to 77);

(b) high prices are imposed on the EU consumer; there is a structural production surplus and a highly regulated industry with little competition (see paragraphs 78 to 86);

(c) alternative support measures should be considered for reforming the CMO to meet the aims of the 1992 and Agenda 2000 reforms (see paragraphs 87 to 92).

The report concludes that while the Commission services are generally considered to be competent and well-informed, at the strategic level significant weaknesses exist in the quality of the Commission's proposals, decisions and actions. The continuing high cost to consumers and the overproduction in the EU have not been tackled in successive renewals of the sugar CMO.

INTRODUCTION

1. The basic principles of the sugar CMO have remained virtually unchanged since its introduction in 1968. The CMO was not affected by the reforms of the CAP in 1992 nor was it included in the recent Agenda 2000 reform. Nevertheless, more and more calls for change have been heard in recent years and pressures for reform are likely to arise from the enlargement of the EU and the prospects of further constraints on subsidised exports resulting from negotiations under the World Trade Organisation (WTO).

2. The market organisation in its current form remains in force until 30 June 2001. The Council of Ministers has to decide on the rules to be applied thereafter by 31 December 2000. The CMO's basic provisions are governed by Council Regulation (EEC) No 1785/81 [1] as subsequently amended. These were recently consolidated in Council Regulation (EC) No 2038/1999 [2].

3. In 1999, the gross annual budgetary cost of the CMO reached 2 100 million euro, of which 1 200 million euro was recovered through production and storage levies (see *Annex I*). There is also a significant cost borne by the consumer through the price of sugar. This is analysed in paragraphs 80 and 81.

4. The results of the Court's last comprehensive audit were published in 1991 [3]. The main problems highlighted were the situation of structural over-supply and the high costs of the sugar regime. Since then the Court has examined various aspects of the CMO, notably in its work for the annual Statement of Assurance (DAS).

5. The objectives of the present audit were to obtain assurance that the management by the Commission of the sugar CMO is sound and to review the extent to which the specific objectives of the CMO as well as the overall objectives of the CAP have been achieved.

METHODOLOGY USED

6. For the Commission's management of the CMO, the audit scope was developed with the aim of identifying explicitly the activities for which the Commission could reasonably be held accountable. Six key activities were identified (paragraph 17).

7. The assessment criteria in respect of these activities were determined as:

(a) the quality of the inputs (the availability of sound information);

(b) the quality of the throughputs (the analysis and use made of the information);

(c) the quality of the outputs (the proposals made and the decisions and actions taken).

8. Sound information on the outcomes (i.e. the state of achievement of the objectives set) is a key input for proper management and is therefore within the Commission's management responsibility. However, the extent to which the CMO and CAP objectives have been achieved depends on factors such as improvements in productivity which are beyond the Commission's control and for which it cannot be held accountable.

9. The analysis of the outcomes was based on a review of data and interviews with a wide range of stakeholders [4]. In addition, studies and research material from outside bodies were taken into account.

THE EU AND WORLD SUGAR MARKET

10. In *Annex II* a brief description of the EU and world sugar market is given. It shows that, in the last five years, the world market has been characterised by considerable overproduction and a rising level of stocks. World stocks are now at a historically high level, which has had the effect of depressing prices.

11. World production of sugar in 1999/2000 is estimated at 135 million tonnes and consumption at 127 million tonnes. Stocks have doubled to an estimated 62 million tonnes (49 % of annual consumption) from 31 million tonnes (28 % of consumption) in 1989/1990, as shown in the following chart (*Chart 1*).

12. In the EU, production also considerably exceeds demand and high stocks exist. *Annex III* shows that in 1998/1999 the EU produced 18,1 million tonnes of sugar, of which 14,2 million tonnes were within the production quotas [5], 2,2 million tonnes in excess of quotas and 1,7 million tonnes from refined cane sugar (preferential imports). In the same year, EU consumption was 12,7 million tonnes. However, the resulting surplus has no effect on EU prices due to the operation of the CMO price-support mechanisms and export programme.

13. The chart below (*Chart 2*) shows the extent to which the EU-guaranteed sugar supply, represented by the beet quotas and preferential cane sugar imports, exceeds consumption. EU quotas are currently more than 3 million tonnes above the level at which the EU sugar supply would equal consumption.

14. The following chart (*Chart 3*) shows that the guaranteed supply (represented by the columns) exceeds the consumption in each Member State with the exceptions of Spain, which has a significant deficit, and Finland and Sweden which have small deficits.

(1) OJ L 177,1.7.1981, p. 4.
(2) OJ L 252, 25.9.1999, p. 1.
(3) OJ C 290, 7.11.1991.

(4) Interested parties, including growers, processors, sugar traders, industrial users, consumers representatives, Member States and ACP representatives.
(5) The total quota for which the intervention guarantee is applicable is divided into A and B quotas. For the A quota a maximum production levy of 2 % is charged, whereas for the B quota the levy is up to 37,5 %. No intervention guarantee applies to production of beet sugar in excess of the quotas, known as C sugar, which may not be sold on the EU market and so is exported without export refunds.

Chart 1

World sugar production, consumption, stocks and prices

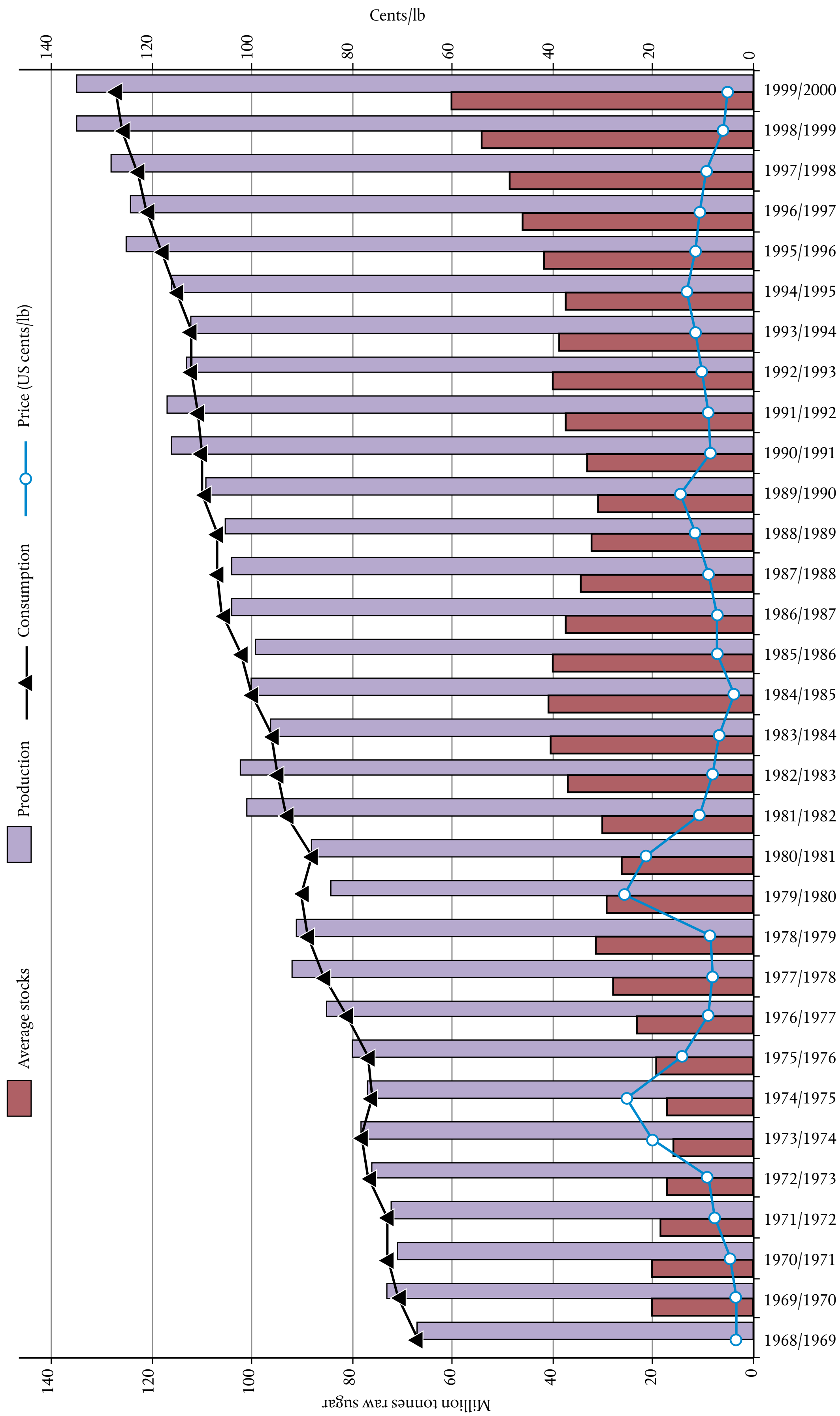


Chart 2

EU guaranteed sugar supply and consumption

(EU-6, EU-9, EU-10, EU-12, EU-12+, EU-15)

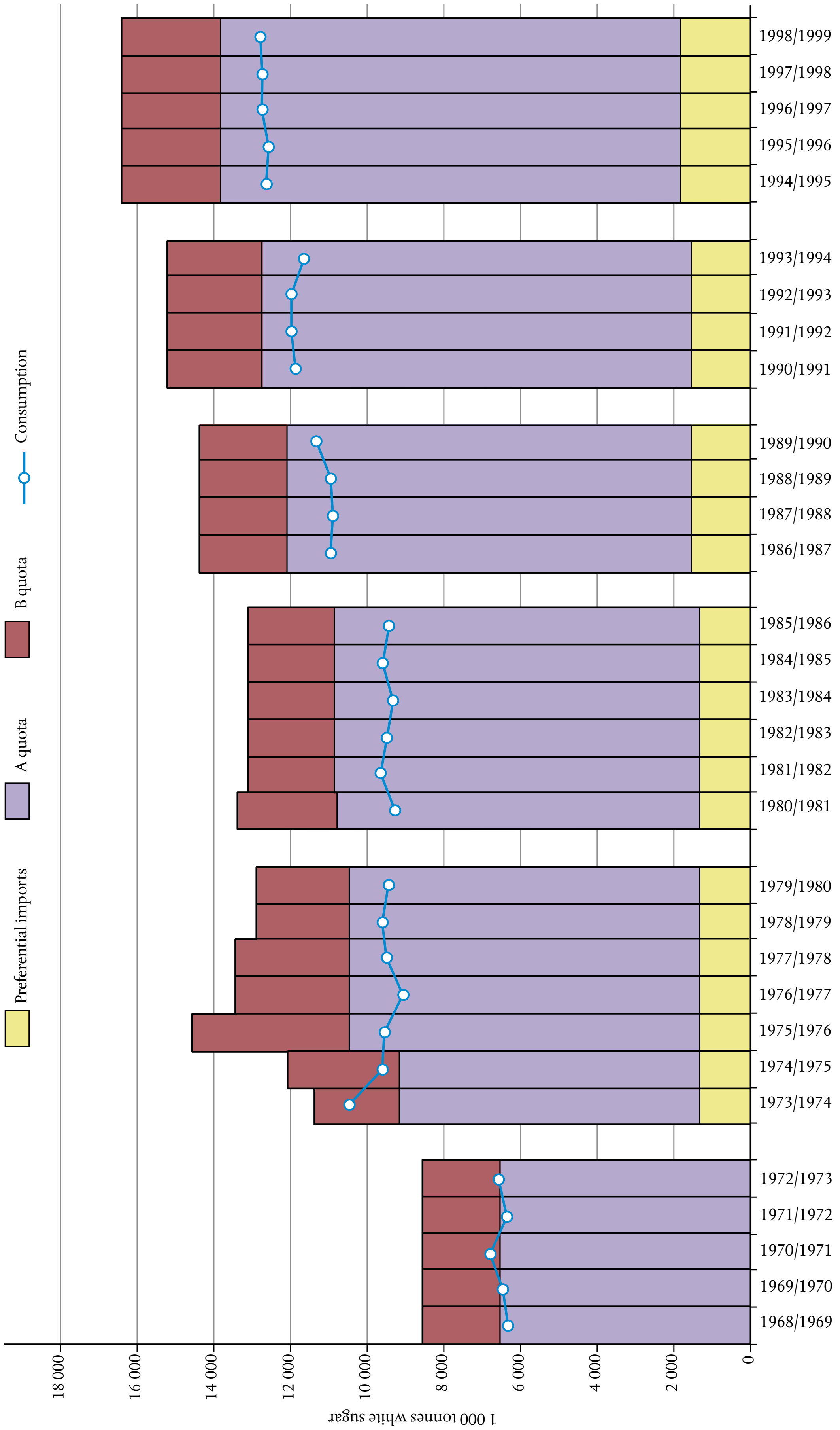
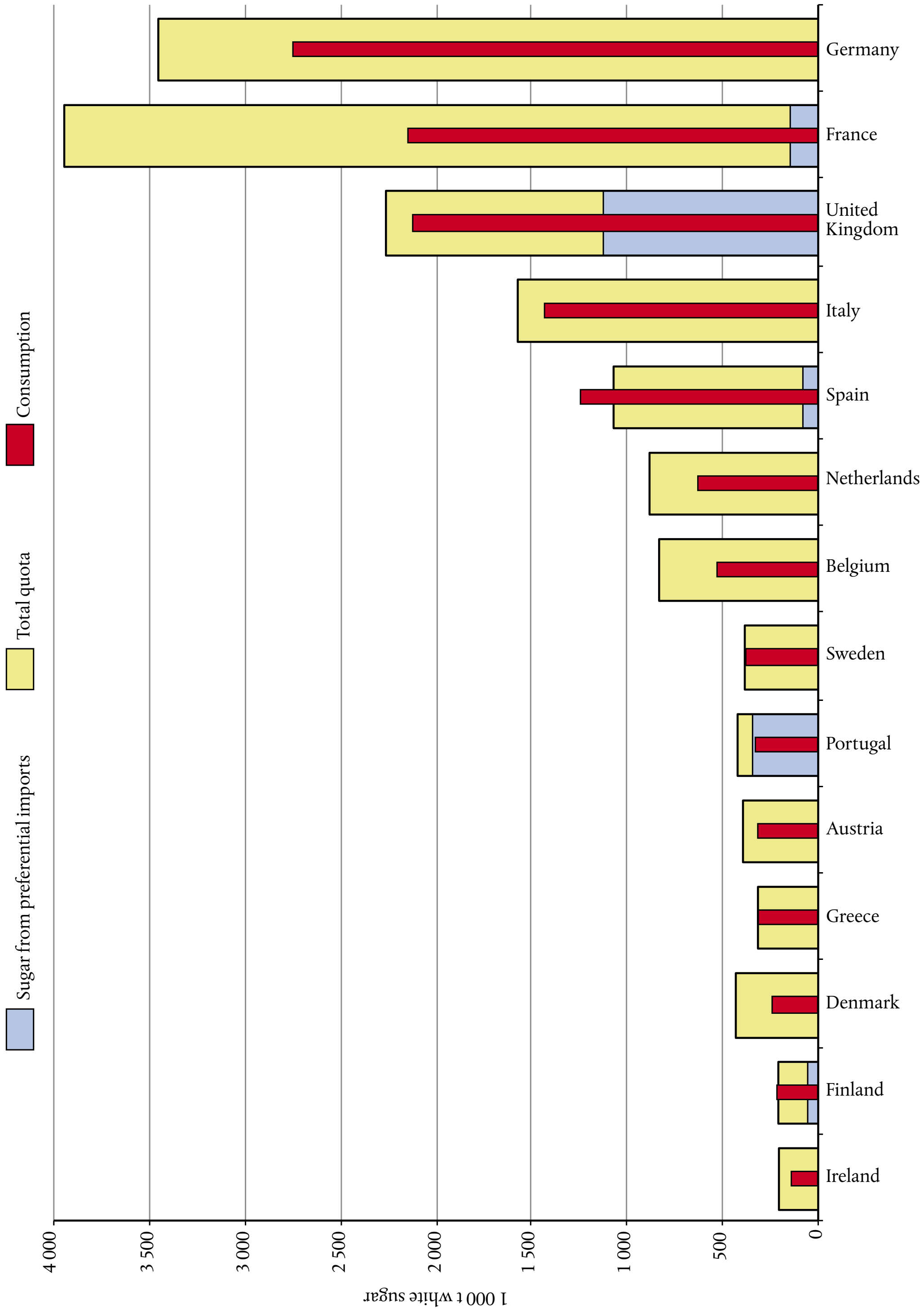


Chart 3

EU sugar supply and consumption 1998/99



THE COMMON ORGANISATION OF THE MARKET FOR SUGAR

15. The basic Regulation of the CMO specifically states that the objectives in Articles 33 (overall objectives of the CAP ([1]) and 131 (to contribute to the harmonious development of world trade) of the Treaty establishing the European Community apply. It also contains the specific objectives of:

(a) ensuring that the necessary guarantees in respect of employment and standards of living for Community growers of sugar beet and cane are maintained;

(b) ensuring a fair balance of rights and duties between processors and growers;

(c) making the CMO self-financing for the disposal of that part of EU sugar production under quota which is surplus to internal consumption;

(d) enabling the outlets for sugar and isoglucose on the internal market to be enlarged;

(e) achieving a steady and even flow of raw sugar to the EU refineries.

16. The main features of the CMO are:

(a) a production quota scheme applied to the finished product (white sugar) rather than the basic agricultural products (beet and cane); the main quotas are called 'A' quotas and there are additional 'B' quotas to which lower prices apply; quotas are set for a specific period, usually of five to seven years, by the Council on a proposal from the Commission; (see *Annex IV* for the quotas currently in force);

(b) a price system in which beet prices and an intervention price for white sugar are fixed annually by the Council, based on a proposal by the Commission;

(c) an export programme through which quota and refined preferential cane sugar not sold on the EU market is exported with export refunds; the Commission manages this programme by deciding weekly on the refund rates based on offers made by sugar traders;

(d) an import programme for cane sugar at preferential rates;

(e) production levies to recover from the sugar industry the cost of the export refunds (less an amount equivalent to the preferential sugar imports) and storage levies to recover the payments made to companies storing sugar (see paragraph 55).

([1]) These can be summarised as follows; to increase productivity by technical progress and rational development of production; thus to ensure a fair standard of living for the agricultural community; to stabilise markets; to assure the availability of supplies; to ensure that consumers are supplied at reasonable prices.

MANAGEMENT BY THE COMMISSION

Introduction

17. In this section the Commission's management of the CMO is assessed in terms of the inputs (information) and outputs (regulations, decisions and proposals). The main Commission activities are covered; the proposals for production quotas, annual proposals for institutional prices, decisions on the export programme and the 'self-financing' system. The extent to which the Commission has assurance that the CMO is functioning well is also examined, along with how the Commission responds to events affecting the CMO and to the different stakeholders.

Commission proposals on quotas

18. The quota arrangements, a central element of the CMO, were introduced in 1968 for a transitional period and subsequently renewed on several occasions and most recently in 1994 for the period 1995 to 2001. The Commission quota proposals for 1995 to 2001 ([2]) were assessed to determine whether the level and allocation of the quotas were proposed in a way consistent with the efficient and effective achievement of the CAP and CMO objectives.

19. In its proposals the Commission put forward three basic questions.

(a) Is it necessary for the production quota system to continue?

(b) If so, at what level should the quotas be set?

(c) Is it necessary to modify the present instruments for the self-financing of the CMO?

20. The Commission's analysis was that the medium-term prospects on the world market were uncertain and that no significant and lasting effects on prices were foreseen. Taking into account the need to control guaranteed production, in particular to meet the GATT commitments, it concluded that the production quota system should be maintained, with quotas kept at their existing levels.

21. The Commission proposal did not address the extent to which the CAP objectives were being achieved, did not present any analysis of the economic effects of the CMO and did not consider possible reforms or alternatives. In particular, there was:

(a) no assessment of the improvements in productivity achieved, nor consideration of whether the development of the sector was rational;

(b) no analysis of the incomes of beet growers;

(c) no consideration of whether the prices borne by consumers were reasonable.

([2]) COM(94) 439 final, 16.11.1994.

22. In fact, the only information presented on the state of the EU's beet growing and processing activities was a table showing that the EU quotas led to a surplus each year of between 1,3 and 1,5 million tonnes. This supply balance sheet was rather misleading, however, as it only showed half of the structural surplus by not including imported sugar refined in the EU, even though the import of 1,3 million tonnes of cane sugar from the ACP countries is a legal obligation.

23. From discussions with various stakeholders in the Member States it is clear that the following issues warranted consideration by the Commission:

(a) the economic cost of the surplus production and high prices;

(b) the effect on world prices and developing countries' incomes of the subsidised exports;

(c) the dependence of growers on the processors and the extent to which progress in beet production and processing techniques justified a review of the grower/processor share of revenues;

(d) the barriers to entry for new beet growers;

(e) the relative profitability of beet compared to other crops;

(f) the justification for continuing the storage aid arrangements;

(g) the environmental impact, in particular of the surplus production;

(h) the effects of the fixed national quotas in limiting specialisation and competition.

24. Although these concerns were not addressed in the Commission's 1994 proposals, an analysis of Commission working files showed that in 1992 its services prepared a thorough assessment of the operation of the sugar regime, its impact and the challenges it faced. An internal working group considered a wide range of options for reform, some of them quite radical. Most of the issues listed above were considered, to varying degrees. They concluded that there should be a significant cut in prices over a seven-year period.

25. However, in the end, the Commission simply proposed that the existing regime be continued unchanged for one year while the effects of the 1992 reform of the CAP for the other main arable crops, and of the newly introduced single market, were assessed.

26. Again in 1993 the Commission proposed a one-year extension, this time pending the results of the GATT negotiations.

27. In 1994, following the Uruguay Round Agreement the Commission made its proposal for the renewal of the quota system for a six-year period. This proposal concentrated on the minimum adjustments to the regime necessary for compliance with the GATT and measures to ensure that the Community's refining industry had adequate supplies of raw sugar.

28. There were also some relatively minor proposals to tackle certain areas where the CMO was not functioning as intended, namely the payment of storage aid on sugar produced in excess of quotas (C sugar) carried forward, national aids in Italy, and the production refund for the chemical industry.

29. For these issues that were included in the proposal, the explanatory memorandum gave a good description and well-reasoned arguments which were based on thorough studies and assessments of the alternatives and the implications.

30. However, the preparatory work by the Commission services on analysing issues such as growers' incomes, processing industry margins and concentration, alternative uses of sugar and quota transferability was again not presented to the decision-makers ([1]). There was no information given on the desirability of reform in the light of the CAP reforms and the single market. The concerns of consumers and industrial users were not addressed.

31. It is clear from the above that the Commission did not present all the appropriate information to justify the continuation of the quota arrangements for 1995 to 2001, nor did it give a comprehensive analysis of the state of achievement of the CMO's objectives. At the same time it was noted that extensive, although not complete, information was available to the Commission services. Furthermore, the Commission did not present the likely impact of their proposals compared with other options and there was no assessment of the consequences of the regime for the consumer, nor of the impact on the environment.

Annual proposals for institutional prices

Data used in preparing the price proposals

32. Regulation (EC) No 2038/1999 requires the Commission to propose an intervention price for white sugar and a basic price for beet. The Regulation is specific only about the calculation of the basic beet price: it is to be based on the intervention price less the costs of processing and transport plus receipts from molasses ([2]).

([1]) The Council, after consultation with the European Parliament and the Economic and Social Committee.
([2]) Molasses is a by-product of refining sugar (whether from beet or cane) and is used in the EU primarily in animal feeds.

33. In practice, the Commission has not reviewed the elements of this calculation for many years and analysis of the basic documentation for 1999/2000 showed that it disposes of insufficient information. For the main part, concerning the cost of processing the beet into white sugar, the Commission only has data provided by the body that defends the interests of the processing industry ([1]). These data are not in sufficient detail to enable the processing costs to be verified.

34. The usefulness of this information is questionable. For example, depreciation figures, which are by far the largest single element in the processing costs given, are based on replacement value rather than actual costs. The data provided imply that the processing costs in 1996/1997 and 1997/1998 were 25 % higher than the amount allowed for in the beet price calculation yet most processing companies continue to be highly profitable. However, the Commission does not have the data checked by independent financial experts and does not have alternative sources of information on processing costs. Although the Commission does not actually use the information to calculate the beet price each year, its unreliability means that it is not in a position to demonstrate that the prices are reasonable.

35. Some elements of production costs have undergone considerable changes over the years. For example, improvements in cultivation techniques have allowed production periods to be prolonged in some countries, thereby optimising the use of capital investment; interest rates have fallen and there has been extensive rationalisation with the closure of smaller inefficient factories. These changes have not been reported on by the Commission in the price proposals.

36. This lack of information, which makes it difficult for the decision-makers and other interested parties to judge the basis for the Commission's price proposals, has been strongly criticised by the Commission's Consumers Committee ([2]) and by the industrial users of sugar. The industrial users have made their own estimates of processing costs and concluded that the existing margin allowed in the intervention price is too high ([3]).

Taking account of the CAP objectives

37. While the Regulation gives no guidance on how white sugar prices are to be set, it is stated in the preamble to the Commission's price proposals that when sugar prices are fixed, account should be taken of the objectives of the CAP and in particular of the need to guarantee a fair standard of living for the farming community and ensure that supplies are available and that prices to the consumer are reasonable. It adds that the balance between the prices of the principal agricultural products should be maintained. However, the Commission presented no information on these elements in its proposal. Furthermore, there was no analysis of growers' incomes and employment or the impact on consumers in the Commission's preparatory files.

38. Nevertheless, growers' incomes in this period have been affected by increasing yields, resulting from mechanisation and concentration, use of more effective herbicides, pesticides, etc. In addition, prices for other crops have been reduced substantially since 1992. The Commission's Consumer Committee ([4]) declared that sugar prices were 'increasingly out of line with other arable crops' and that 'an effort should be made to reduce the very high consumer burden and trade distortion effects of the sector'. These issues have not been addressed in the Commission's proposals.

The level of prices

39. The Commission has not proposed any changes to the white sugar and beet prices since 1991. It has not presented its proposals in terms of the likely impact on growers' incomes and consumer prices. Only the budgetary impact has been presented.

40. However, when examining the Commission files, it was noted that price cuts had been seriously considered in previous years and notably in 1992, when the Directorate-General (DG) for Agriculture prepared a proposal for a 15 % cut over seven years analogous with the cuts decided for the cereals sector. This followed an internal Commission working group analysis of the impact of various options. They concluded that an uncompensated reduction of 15 % to 20 % would not lead to major problems for the sector and could reduce EU surplus sugar production by between 2 and 3 million tonnes and produce a gain for consumers of up to 650 million euro. The economic analysis service of the DG for Agriculture concluded that price cuts of 25 % to 30 % would be required to align the profitability of beet growing with that of cereals. As described above, neither this information nor the price reduction proposals was put by the Commission to the decision-makers.

41. The Commission services therefore did not present an assessment of the likely consequences of their proposals, nor justify them in relation to alternatives, despite having the information necessary to do so.

(1) CEFS: European Committee of Sugar Manufacturers.
(2) Opinion by the Consumer Committee on the reform of the CAP, Brussels, 14 June 1999.
(3) CIUS, proposal on the reassessment of the institutional manufacturing margin, 22 December 1998.
(4) Consumer Committee, opinion on the reform of the common agricultural policy, Brussels, 14 June 1999.

The price for ACP raw cane sugar

42. The guaranteed price for ACP raw cane sugar is not part of the EU price proposals but is negotiated separately under the Sugar Protocol ([1]). This allows considerable room for manoeuvre in the setting of prices, requiring simply that the price to be paid to the ACP countries be negotiated within the range of prices obtaining in the EU, taking into account all relevant economic factors. To this end, the ACP sugar-producing countries cooperate each year to produce a memorandum on economic factors.

43. The country benefiting most from the special conditions under the abovementioned arrangements is Mauritius. Almost all of the Mauritius sugar crop (630 000 tonnes in 1998) is sold under preferential arrangements; over 95 % of 1998 sales went to the EU under the Sugar Protocol and special preferential sugar (SPS) ([2]) arrangements and a further 3 % to the USA under the import quota. Just 0,7 % of sales were on the world market, these being entirely sales of bagged speciality sugars.

44. The cost of production of Mauritius sugar exceeds the prices that can be obtained for raw or white sugar on the world market (although speciality sugars can be sold profitably). The Mauritius sugar industry therefore depends heavily on its access to the EU market at guaranteed EU prices. Production costs in Mauritius are more than double those of the more efficient ACP countries (Malawi, Zimbabwe, Swaziland, etc.) because of the high labour costs and the hilly and rocky terrain, which reduces possibilities for irrigation and mechanisation. Mauritius imports white sugar (36 000 tonnes from South Africa in 1998) for local consumption in order to maximise the exports of its own raw sugar under preferential arrangements.

45. The economic importance of access to the EU market at special conditions has created a strong dependence for Mauritius and other ACP countries on the continuation of these arrangements and the prices obtained. However, the Commission has always proposed that the guaranteed price ([3]) for Protocol sugar be simply equal to the raw beet sugar intervention price and this has remained unchanged for many years. In practice, there is no negotiation or consideration of the economic factors by the Commission.

Management of the export programme

46. The annual cost to the EU budget of exports of surplus sugar is some 1 500 million euro, of which 800 million euro is recovered through the production levy.

47. The Commission calculates each week the 'theoretical export refund'. From this it used to deduct an arbitrary amount of 0,2 euro per tonne. All tenders for export licences that were below this amount were accepted. Only exceptionally, especially towards the end of the marketing year, was a different approach followed.

48. Sugar-trading companies knew that their tenders would normally be successful if they were below the theoretical refund less 0,2 euro per tonne, so there was little incentive for them to compete for export licences by submitting lower offers.

49. However, the export programme is now constrained by the GATT Agreement on both the quantity and value of sugar exported with refunds, and by pressures on the agricultural budget. Until the 1999/2000 marketing year the impact was limited because carry-forwards were allowed under the GATT arrangements. However, for 2000/2001 budgetary expenditure for exports is limited to 499 million euro and the Commission estimates that quota cuts of up to 500 000 tonnes could be required.

50. Moreover since the March 1999 Berlin summit there is increased pressure on the Commission to remain within the budgetary allocation and to take a more active role in managing the export programme in order to control the sugar budget. At the same time, world market prices have fallen, increasing the cost of each tonne of sugar exported.

51. A weekly meeting is held in the DG for Agriculture at which the tenders are considered in the light of the prospects on the world market, which the Commission officials monitor carefully, and the impact on the available budget. There is no longer any predictable refund below which tenders will be accepted. This has had the effect of increasing competition for export licences with consequent budgetary savings.

52. It was only in the face of budgetary constraints that the Commission acted to obtain lower rates for export refunds.

The organisation of the tendering procedures

53. The tendering procedures were examined in various Member States and at the Commission and it was found that the Management Committee does little more than rubber stamp the Commission proposal, which is very rarely changed in the light of the Committee's deliberations.

54. Significant savings could be made by accepting fewer offers for export licences when world market prices are low, and increasing the issue of licences when prices are high. However, given the uncertainty of the world market this approach presents considerable risks which the Commission has not been willing to undertake. The Commission could consider transferring this risk by holding a limited number of tenders each year rather than one each week. The Commission should evaluate the possible improvements from alternative arrangements for tendering and deciding on export refunds.

(1) Protocol 3 on ACP sugar of the Lomé Convention, 28 February 1975.
(2) Arrangements for the import of preferential sugar in addition to the Sugar Protocol to ensure that the Community's refining industry has adequate supplies of raw sugar.
(3) CIF: cost, insurance and freight.

Self-financing arrangements

55. Production levies are charged to compensate for the costs of exporting approximately half of the surplus production. Storage levies are charged in order to recover the payments made to reimburse storage costs. This system of levies is often referred to as the 'self-financing' arrangements, which the Court commented on in its 1988 annual report [1] and in its 1991 special report [2].

56. The quantity of exports to be taken into account in the production levy calculation continues to be based on the difference between quota production and internal consumption (as laid down in the Regulation). The Commission sugar unit derives the consumption figure from data sent in by the Member States on production and trade in accordance with Regulation (EC) No 779/96 [3]. However, no checks are carried out by the Commission to verify the reliability of these data.

57. In comparing data on intra-EU trade from several Member States significant differences were noted. A total of 171 000 tonnes of white sugar in 1998/1999 are shown as delivered to other EU Member States but not recorded as received. The main differences concerned German deliveries (492 000 tonnes in 1998/1999 according to the German data) which were recorded as receipts only of 379 000 tonnes by the other countries. Similarly, French data shows deliveries of 965 000 tonnes whereas only 901 000 tonnes were recorded as receipts. Deliveries from all EU countries to Spain amounted to 406 000 tonnes whereas Spain only recorded receipts of 333 000 tonnes.

58. The unreliability of these data could significantly affect the amount of the production levies. Efforts should therefore be made to use more reliable data, for example by using export and import certificates to establish the net exports.

Administrative, control and financial arrangements of the CMO

59. Member States have clear responsibilities for administration and control of the CMO, but the Commission has overall responsibility to ensure that these arrangements function well.

60. Responsibilities within the Commission for monitoring the administrative and control arrangements are divided. For both sectors involved (DG Agriculture, Clearance section, for expenditure and DG Budget for receipts), the key controls centre on the accuracy of the stock records. However, while both use risk analysis, the methodology followed in assessing the risks differs. Whereas DG Budget's checks are performed frequently, no on-the-spot verification of production and stocks was undertaken during the last five years by DG Agriculture, Clearance section. However in 1999 it did investigate sugar export refunds in some Member States for the first time in many years. No overall monitoring strategy has been developed, and the Sugar unit is not involved in assessing the risks.

61. In the Member States that the Court visited it was noted that the Commission had not issued guidance on best practice in the design of control mechanisms. This has led to the development of very different control frequencies and a wide range of control strategies. For example, physical checks on bulk sugar are performed every month on all stocks in one Member State but not at all in another. The methodologies followed vary from sophisticated checks with laser equipment, to measurement using ropes, to simple reconciliations of stock records at the time of emptying storage facilities.

62. In most Member States visited it was noted that almost total reliance is placed on sugar production records prepared by the companies but that the information systems that create these records are not audited by the Member States' inspectors and the records are not reconciled to the companies' financial accounts.

63. But all Member States visited emphasised that whatever technique is used to check bulk stocks, none can give accurate results. Reliable stock records are of key importance for the calculation of the production, as well as storage levies. For this reason the Commission should develop a coherent control strategy and give guidance on good practices and minimum standards.

The Commission's responsiveness to the various stakeholders and to events affecting the CMO

64. Stakeholders generally considered that the Commission services were competent, knowledgeable and approachable. However, industrial users of sugar and the final consumers' representatives were of the opinion that insufficient account is taken of their interests.

65. For two major events affecting the CMO in 1999, the soundness of the Commission's management was criticised. The first related to the fixing of export refunds on processed products containing sugar, where the Commission put forward proposals for cuts of 10 % to the Non-Annex 1 Management Committee at the last moment, without notice and with no written justification.

66. These initial proposals were not based on an economic analysis or other valid supporting data and were met by strong protest from exporting companies and Member States. In the end the Commission presented a well-based proposal for a lower level of cut in the export refunds and adaptations of the conditions for allocating the refunds to those processed products most in need, although this was rejected by the Management Committee.

(1) OJ C 312, 12.12.1989, p. 93.
(2) OJ C 290, 7.11.1991.
(3) OJ L 106, 30.4.1996.

67. In the second case the Commission did not consult the Management Committee on the terms of reference for a major evaluation of the CMO for sugar.

REVIEW OF THE SUGAR REGIME

Introduction

68. As indicated under paragraph 8 the Court considers that it is a fundamental management responsibility of the Commission to obtain and disseminate sound information on the outcomes of the policy. The Commission launched an evaluation of the policy in the sugar sector in March 1999, the first since the CMO was introduced in 1968. The terms of reference of the evaluation focus on the relevance of the measures in force, as well as their effectiveness and efficiency. At the moment of drafting this report (June 2000) the Court did not have access to the results of this evaluation. It is therefore not in a position to judge the quality of the evaluation or to take note of the results.

69. However, there are four key questions that should be addressed.

(a) To what extent have the objectives of the CMO been achieved (is the policy effective)?

(b) At what costs have these objectives been achieved (is the policy efficient)?

(c) Are the mechanisms of the CMO for sugar, and in particular the level of production quotas and price support, still appropriate?

(d) Are the measures still in line with the CAP following the 1992 and the more recent Agenda 2000 reforms?

70. The Court's review of the sugar regime in this chapter focuses on these questions. The Court has based its review on available data and interviews with stakeholders.

Achievement of the objectives of the CMO

71. An assessment of the policy outcomes is made difficult because no quantified objectives have been set by the Commission, despite this being a requirement of Article 2 of the Financial Regulation.

72. However, on the basis of the information available it can be concluded that for the general CAP objectives for the CMO as set out in the Treaty:

(a) a good revenue, per hectare, for beet growers is ensured (up to twice that from alternative crops);

(b) the market is stable (no significant price fluctuations);

(c) supply is guaranteed (no shortages even in years of poor harvests);

(d) productivity has improved (increased beet yields, sugar content, extraction rates, mechanisation); this development has not been entirely rational, however, as national quotas have prevented production moving to the most efficient areas; the high prices of sugar beet in relation to other crops have affected the allocation of resources.

73. In regard to the fifth CAP objective, a reasonable price for consumers, only in Japan and Switzerland are sugar prices higher than in the EU. At the time of the audit, the EU institutional prices were more than three times world market levels. The Commission's reply indicates that high prices exist in many other countries. However, it does not address the issue of whether the EU's prices are reasonable.

74. In respect of the Treaty objective of contributing to the harmonious development of world trade, the considerable expansion of EU quota production in the 1970s and 1980s (see *Chart 2*) has had an impact on the world market and the world market price has been influenced by subsidised EU exports and high production of C sugar. Equally, preferential prices for cane sugar imports have led to a high degree of dependence in some ACP countries (see paragraphs 42 to 45).

75. The specific CMO objectives have largely been achieved:

(a) employment is guaranteed for the 4 % of EU farmers who have contracts with a quota-holding processing company;

(b) the CMO is self-financing to the extent provided for by the Regulation;

(c) there is a steady and even flow of raw sugar to EU refineries.

76. There are few serious conflicts between growers and processors, which indicates that both parties are satisfied with the prices they receive. However, as it is the processor that holds the quotas, beet growers must obtain a contract with the factories in order to be able to benefit from the CMO minimum beet prices.

77. The above review shows that many of the CAP and CMO objectives are being achieved. However, these achievements must be viewed in the light of the associated costs, which fall largely on the consumer.

The costs of achieving the objectives

78. The costs of achieving the CAP and CMO's objectives can be seen in several negative outcomes:

(a) a structural surplus in the production of sugar;

(b) a high level of internal prices in relation to world market prices;

(c) a high level of stocks;

(d) a highly regulated framework which does not encourage competition;

(e) the need for costly administration and controls.

79. Whilst the audit did not identify reliable independent assessments of all of these costs, it is possible to establish basic indicators that give a reasonable view of their magnitude.

80. The net annual cost of the structural surplus to the EU budget is 800 million euro in the 2000 budget, being the total cost of exporting surplus sugar (approximately 1 600 million euro) less the levies on production. But there is an additional cost to consumers. Under the self-financing system, processing companies pay production levies to cover the cost of exporting approximately half of the surplus. Given the low elasticity of demand for sugar, the processing companies are able to pass on these levies in the price of sugar and so the 800 million euro cost of this part of the surplus is ultimately borne by the EU's consumers.

81. The economic cost of the high level of EU prices can only be established through detailed studies. Several are available but their independence has been questioned. The simplest measure of the cost is the difference between the EU support price and the world market price, which would indicate a maximum annual cost to the EU consumer of around 6 500 million euro ([1]). However, the current low world market price cannot be considered a fully objective indicator. Nevertheless, this simple calculation illustrates the possible magnitude of the cost.

82. An indication of the cost of the high level of stocks can be obtained on the basis of the average stocks over the last five years; around 2 million tonnes of white sugar. This represents 14 % of quota production, whereas the Commission has established a level of 3 % (around 0,4 million tonnes) as the minimum necessary to cover unexpected shortages ([2]). The annual costs of storage are calculated by the Commission at 20 euro per tonne. These are collected from the processors in the storage levy and passed on to consumers in the same way as the production levies (see paragraph 80). This simple calculation of the stocks held above the minimum necessary multiplied by the storage costs gives an annual cost to EU consumers of over 30 million euro.

83. The economic costs of regulating the sugar industry cannot be determined within the scope of the audit. The scheme provides for a fixed buying-in price of the raw material (beet or cane) and a guaranteed selling price of the final product, white sugar, and allocates production quotas to processing companies. Currently just five companies hold over 50 % of the total EU quota. Furthermore, in 10 of the 14 sugar-producing Member States ([3]), the entire national quota is in the hands of only one or two companies. As a result, normal competitive forces do not operate and in several cases sugar companies have been fined for abuses of competition ([4]).

84. Experience in other developed countries indicates that if there were no EU quotas on alternative sweeteners ([5]) these latter would enjoy a much larger share of the overall sweeteners market, at the expense of sugar, as they are cheaper and more suitable for some food products ([6]). The EU's production restrictions are in this sense constraining rational economic development.

85. The quantification of the costs of administration and controls over the sugar industry is only possible in an indicative way; Member States retain a percentage of the production and storage levies to cover their costs, estimated at 290 million euro annually ([7]).

86. The above analysis confirms the findings of the Court in its 1991 Special Report that the CMO for sugar leads to substantial costs for the EU budget and for the consumer.

The mechanisms of the CMO for sugar, and in particular the level of production quotas and price support

87. The processing industry and growers' organisations are strongly in favour of maintaining the main features of the current CMO and the existing levels of price support and quotas. They consider that the current regulation of the industry guarantees a secure supply of high-quality sugar to EU consumers and that the price to consumers is reasonable while ensuring good, but not excessive revenues for the industry and growers.

([1]) Based on the Commission's revised estimates for the 2000 budget.
([2]) Commission Regulation (EC) No 1436/1999 (OJ L184, 24.7.1996, p. 27).
([3]) United Kingdom, Netherlands, Denmark, Sweden, Finland, Greece, Ireland, Portugal, Spain, Austria.
([4]) For example, Commission Decisions 97/624/EC (OJ L 258, 22.9.1997) and 1999/210/EC (OJ L 76, 22.3.1999).
([5]) Isoglucose and inulin syrup.
([6]) Rabobank, The World of Sugar and Sweeteners, 1999, p. 35.
([7]) This figure corresponds to 25 % of the sugar levies entered in the EU budget for 2000.

88. Consumers and industrial users of sugar pointed to the high profits being made by the more efficient processing companies as evidence that the level of protection is too high and questioned whether it is appropriate for an agricultural policy to regulate and protect a processing industry so closely.

89. Quotas are allocated in the first place to Member States and then to the sugar-processing companies. This has had the effect of preserving sugar production in regions which are not well suited to it, and which in some cases have required national aids to support production. Conversely, the most efficient production regions have not been able to obtain increased quotas.

90. A basic aim of setting quotas is to restrict the quantity of annual production eligible for the intervention price guarantee. But because of the reimbursement of the costs of storing sugar and the availability of export refunds, even with the considerable surplus, no quantities are offered for intervention purchase. Evidence was found that factory-gate sugar prices were on average 10 % above intervention prices and considerably more in some countries.

91. This has contributed to the situation where competitive forces are not functioning effectively and there is no real 'common market' for sugar. In discussions with the various stakeholders it became apparent that processors have little interest in competing with processors in other countries and remain largely in their home markets. The quotas and the price system, along with the storage-cost reimbursements and export programme, provide stability and a guaranteed income to processors. This degree of protection for the processing industry is rare in the CAP.

92. Consumers consider sugar to be a staple product which will be bought at any price, but for which the impact on the household budget, in particular for low-income families, cannot be neglected. As such the current CMO, which makes the consumers pay for the support to beet growers and the sugar processing industry, is seen by consumers as being less fair, and certainly less transparent, than a system based on direct support to farmers from the EU budget.

The CMO for sugar: the 1992 and Agenda 2000 reforms

93. There have been two major reforms of the CAP in the last decade, both concerned with the need to improve the competitiveness of the European agricultural sector, but in neither case was the sugar sector involved. The 1992 reform basically put the emphasis on a change from price support for products to income support for growers, thus focusing more on the farmer and less on the industry.

94. The CMO for sugar remains, as the following table shows, almost entirely targeted on the processing companies and the finished product rather than on the farmer.

Measures directly affecting farmers	Main measures directly affecting the processing industry
Minimum price for beet	Minimum price for beet Intervention arrangements and prices for white sugar Export refunds on white sugar Export refunds for sugar in processed products Levy on production of white sugar National quotas on production of white sugar Obligation to export sugar produced in excess of quota Possibility of carrying forward part of surplus Aid for storage Approval of storage facilities Levy on sales to fund storage aid Obligation to hold minimum stocks Protection from imports Production refunds for chemical industry Quotas on isoglucose production and inulin syrups Aid for refining industry Import of SPS sugar to guarantee supply to refineries Controls on exports, imports, production and storage of sugar

95. In the Agenda 2000 reform emphasis was placed on competitiveness on world markets, environmental protection, sustained rural development, simpler policies and greater accountability to the taxpayer.

96. EU sugar is clearly not competitive on the world market. Subsidies of the order of 75 % of the EU intervention price are currently needed to enable the quota surplus to be sold. C sugar (production in excess of quotas), which receives no export refunds, can only be sold profitably at world market prices because the prices obtained for sales of quota sugar are sufficient to cover all the fixed costs of the processing companies.

97. Intensive sugar production can have negative consequences for the environment: the water requirement is high (three times that of wheat) and the nature of the crop entails a heavy usage of herbicides [1]. As a result, the maintenance of production on a scale which substantially exceeds EU demand leads to negative environmental impacts which could be avoided.

98. As regards accountability, the fact that the major cost of the sugar policy is borne by the final consumer, i.e., the public, warrants proper quantification and public reporting to ensure transparency.

CONCLUSION

99. Serious consideration should be given by the Commission to improving the quality of its management of the sugar CMO in respect of:

(a) the quality of the basic information it uses in managing the CMO; in particular it should dispose of complete information on the achievement of the objectives in order to justify the proposed quota arrangements and price proposals; it should dispose of more extensive and independently verified information in order to make sound price proposals; efforts should be undertaken to dispose of more reliable data for the calculation of production levies;

(b) its analysis of the basic information; the Commission should make use of independent financial experts and alternative information sources; it should analyse all elements influencing the price proposals including growers' income and employment and the impact on consumers; it should properly consider the economic factors in its proposals for the ACP guaranteed sugar price.

[1] See the Court's Special Report No 14/2000, 'Greening the CAP', (OJ 353, 8.12.2000) paragraph 27, and the OECD Directorate for Food, Agriculture and Fisheries, Committee for Agriculture, Group on Cereals, Animal Feed and Sugar; Sugar Policy Reform: Environmental Policy Aspects, 24 September 1998.

100. The review of the sugar regime shows that many of the CAP and CMO objectives are being achieved, but with a structural surplus and at a high cost to the EU budget and to the consumer. While the Commission cannot be held entirely accountable for this situation, the soundness of the Commission's management and in particular the quality of its proposals, decisions and actions has had an impact on the outcomes and for this the Commission is responsible and accountable.

101. Despite a situation of structural overproduction, the Commission has repeatedly limited itself to proposing the continuation of the sugar regime and maintaining the levels of quotas and prices unchanged. However, extensive information has been collected, and analyses prepared, by the Commission's services which should have provided the basis for proposing corrective action. Increases in productivity in sugar beet production and processing should have prompted the Commission to address the question of the costs imposed on EU consumers.

102. There have been two major reforms of the CAP in the last decade but in neither case was the sugar CMO involved. Agenda 2000 placed emphasis on competitiveness in world markets, environmental protection, sustained rural development, simpler policies and greater accountability to the taxpayer. None of these aspects are satisfactorily addressed in the sugar CMO.

103. The CMO for sugar benefits relatively few farmers, but for those that do benefit, it provides a level of income from beet growing well above that available from other major crops (see *Annex II*).

104. Given the impacts of the quota system and the high prices, alternative measures should be examined. While import restrictions insulate the EU market from the volatility of world market prices and protect EU sugar producers, a degree of liberalisation of the EU sugar industry in order to increase competitive forces and reduce prices should be considered. Some stakeholders have suggested that quotas be allocated directly to growers and flexibility ensured by allowing quotas to be transferred. Others have argued for only a minimum beet price to be fixed (to protect the farmer from a dominant processor) and for quotas and intervention to be phased out, with market forces ensuring that sufficient high quality sugar continued to be supplied and that the price was competitive.

105. Another option raised is that of adopting the basic principles of the 1992 reform which applied to other arable crops (see paragraph 93). This would imply a substantial proportion of support taking the form of direct payments to growers and the convergence of institutional prices with world market levels.

106. The elements presented in paragraphs 87 to 92 call into question the appropriateness of the mechanisms of the current CMO for sugar. A number of alternatives exist which the

Commission should address in its forthcoming proposals for the reform of the regime. It is also necessary to examine whether the current level of support remains appropriate when quotas far exceed the level of EU demand and prices are no longer in line with the other major crops.

107. The key issues therefore to be taken into account in future proposals include:

— the consequences of keeping quotas at their existing levels despite the continuing structural surplus,

— the justification for the high prices obtaining in the EU market and the resulting high level of duties on non-preferential sugar imports,

— the extent to which the sugar regime focuses on the industry rather than the growers,

— the limited competition among processors,

— the contradictions between the principles and objectives of the Agenda 2000 reform and the current sugar CMO.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 October 2000.

For the Court of Auditors

Jan O. KARLSSON

President

ANNEX I

Sugar CMO: expenditure and levies
(Mio EUR. Actuals 1995 to 1999 and budget 2000)

	1995	1996	1997	1998	1999	2000
EXPENDITURE						
Measure						
Export refunds on sugar and isoglucose	1 312,1	1 230,0	1 115,7	1 265,5	1 591,1	1 493,0
Reimbursements of storage costs	398,8	361,1	362,4	349,5	342,8	316,0
Refunds on sugar used in the chemical industry	70,4	80,9	81,8	104,8	128,3	135,0
Measures to aid the disposal of raw sugar	15,0	15,4	14,2	12,8	11,2	12,0
Other interventions	34,7	23,9	33,8	44,1	39,4	40,0
Total expenditure	**1 831,0**	**1 711,3**	**1 607,8**	**1 776,7**	**2 112,8**	**1 996,0**
LEVIES (income)						
Sugar production levies	726,0	711,6	746,5	780,5	817,5	788,3
Isoglucose production levies	5,9	6,8	6,6	6,4	7,1	6,8
Inulin syrup production levies	1,1	1,6	2,2	2,8	2,0	3,0
Sugar storage levies	542,0	490,8	349,0	280,1	288,5	286,9
Charges levied on non-exported C sugar and C isoglucose production	0,3	0,8	9,9	0,3	0,4	p.m.
Charges levied on substituted C sugar and C isoglucose	0,8	0,0		0,0	0,0	p.m.
Additional levies	40,3	2,1	0,0	0,0	88,1	77,7
Total levies (income)	**1 316,4**	**1 213,7**	**1 114,1**	**1 070,1**	**1 203,6**	**1 162,7**
Net budgetary expenditure	**514,6**	**497,6**	**493,7**	**706,6**	**909,2**	**833,3**

ANNEX II

THE EU AND THE WORLD SUGAR MARKET

The world market

1. The total value of the 135 million tonne world sweeteners market is of the order of 70 000 million euro, with sugar representing 91 % by value and 83 % by volume ([1]). High fructose syrups and intense sweeteners are the other main product groups.

2. Over 70 % of the world's sugar is produced from cane, grown mainly in Asia, South and Central America, Africa and Oceania. Most of the beet sugar is produced in Europe (80 %), followed by North America (10 %) and Asia (8 %) ([2]). In recent years Brazil has overtaken the EU as the largest producer of sugar in the world, with 21,4 million tonnes in 1998/1999 compared to the EU's 17,6 million tonnes. The next largest producers are India (16,9 million tonnes), China (9,7 million tonnes) and the United States of America (7,5 million tonnes) ([3]). The ACP countries together have an average annual production of 3,9 million tonnes ([4]).

3. World sugar consumption is growing steadily at an annual average 1,4 % in the 1990s ([3]). There is little growth, and even some decline, in consumption in the industrialised countries, who together consume about one third of the world total. Elsewhere, consumption is increasing largely in line with population growth, forecast to be about 1 % per annum over the next quarter century ([5]).

4. World trade is dominated by a handful of countries. Brazil, the EU, Australia, Cuba and Thailand together account for 68 % of all exports ([3]). Five importers — Russia, Indonesia, the USA, the EU and Japan — represent one third of all sugar imports. The EU is unique in being both a major exporter (of white sugar) and importer (of raw cane sugar).

5. The value of sugar traded internationally exceeds all other crop products except wheat. Some 28 % of total sugar production is placed on the world market, compared to 16 % for wheat and 12 % for maize ([6]). Since the demise of the Soviet-Cuba agreements, only about 10 % of the 37 million tonnes of sugar traded annually fall under preferential trade agreements. The most important of these are the USA's tariff-rate quotas (1,8 million tonnes in 1998) and the EU's Sugar Protocol and special preferential sugar agreements with the ACP countries (1,7 million tonnes) ([7]).

6. The international sugar trade is divided more or less equally between raw cane sugar, which will usually be refined at its destination, and white sugar. While the EU's imports are primarily of raw sugar for refining in the EU, its exports are of white sugar. The EU's main markets are the Middle East (35 % of exports 1996 to 1998), North Africa (20 %) and other European countries (16 %) ([3]).

7. The surplus production, and consequent build-up of stocks during the 1990s, has led to historically low prices on the world market.

8. Analysts ([3]) suggest that the extreme swings in the world market sugar price that have been experienced in the past are less likely to recur. For industrialised countries sugar is considered as a staple which will be purchased whatever the price. Supply shortages have therefore led to rapid price escalations. However, developing countries now represent a much larger — and increasing — proportion of world demand and this has increased the price-sensitivity of consumption. The structure of world trade has changed and the sources of supply have diversified.

9. Most sugar-producing countries have some degree of protection and regulation of their sugar industries. Imports are subject to restrictions and the prices paid to growers — and in some cases to the processors — are regulated. However, the EU is the only major producer that directly subsidises exports ([8]).

([1]) Rabobank: The World of Sugar and Sweeteners, 1999, p. 28.
([2]) International Sugar Organisation: Yearbook 1997.
([3]) European Commission, DG for Agriculture, internal document.
([4]) ACP website: www.acpsugar.org.
([5]) Rabobank: The World of Sugar and Sweeteners, 1999, p. 8.
([6]) Rabobank: The World of Sugar and Sweeteners, 1999, p. 33.
([7]) Rabobank: The World of Sugar and Sweeteners, 1999, p. 51.
([8]) Rabobank: The World of Sugar and Sweeteners, 1999, p. 49.

10. The top 10 sugar companies worldwide account for 20 % of all sugar production. Six of these are based in the EU [1]. Several have become multinationals in the last decade through overseas acquisitions [2].

The EU market

11. Almost 90 % of the EU's sugar supply is produced from beet grown within the EU, the remainder is produced in the EU's refineries from raw cane sugar. At first, this concerned only the cane sugar produced in the French Overseas Departments, but this situation changed radically with the United Kingdom's accession. Prior to joining the EC, the United Kingdom obtained two thirds (about 2 million tonnes) [3] of its domestic needs from raw cane sugar imported under the Commonwealth Sugar Agreement and refined in the United Kingdom.

12. In 1975 this agreement was replaced by the Sugar Protocol which commits the EU to purchase 1,3 million tonnes of cane sugar from the ACP countries each year. The British market therefore continues to be supplied by refined cane sugar — albeit to a lesser extent — in addition to beet sugar. Portugal, and to a much lesser degree Finland, also obtained their supplies by refining imported cane sugar before joining the EU and these arrangements have also been continued.

13. Because the prices guaranteed by the sugar CMO are above free market levels, quotas are used to limit production of beet sugar and quantitative restrictions are placed on imports of cane sugar for the refineries. As the EU guarantees to purchase any unsold sugar produced within these limits, one can consider the quotas plus the imports of cane sugar for the refineries as the EU guaranteed supply. However, this supply of sugar is considerably in excess of the EU's requirements for its own consumption. This structural surplus is sold on the world market with export refunds (subsidies). The actual supply situation in the EU for the period 1991/1992 to 1998/1999 is shown in the 'balance sheets' in *Annex III*.

14. All EU Member States grow sugar beet, with the exception of Luxembourg. France and Germany dominate, together producing more than half of the EU's total. Fewer than 300 000 (4 %) of the EU's seven million farms grow sugar beet. Although beet is grown on just 1,6 % (2 million ha) of the EU's agricultural area, it represents 2,5 % of agricultural output by value [4].

15. Eurostat data indicate that the gross value added per hectare of sugar beet (i.e. the value of the crop less the costs of production) is 6,5 times that of cereals, or 3 times if CAP subsidies are included [4].

16. The period since the introduction of the CMO in 1968 has been characterised by increasing yields achieved through improved farming techniques and seed varieties. Yields in terms of white sugar extracted have increased significantly, from an average for the period 1968/1969 to 1976/1977 of 5,26 tonnes per ha [5] to reach 8,4 tonnes for 1996/97 to 1999/2000 [4].

17. The sugar processing industry has seen increasing concentration and improvements in efficiency; the number of factories in EU-15 has fallen from 374 in 1968/1969 to 140 in 1995/1996 [6] and the number of companies from 86 in 1991/1992 to 64 in 1998/1999 [7].

18. Beet growing represents some 45 000 full-time equivalent agricultural jobs [8]; due to technical progress, mechanisation, use of improved varieties and herbicides, the employment of agricultural labourers has practically disappeared in many regions [9]. The sugar processing industry employs 52 000 [10] although most of these jobs are only seasonal.

(1) Tate and Lyle, Südzucker, Eridania-Beghin Say, Danisco, British Sugar, Azucarera Ebro Agrícolas.
(2) Rabobank: The World of Sugar and Sweeteners, 1999, p. 42.
(3) UK Ministry of Agriculture, Fisheries and Food: Annual Review of Agriculture, 1973, 1974, 1975.
(4) European Commission: The Agricultural Situation in the European Union, 1998.
(5) CEFS-CIBE, The Sugar Regime in the European Union, February 1998, p. 7.
(6) FO-Licht: International Sugar and Sweetener Report, 1998, p. 249.
(7) CEFS website: www.ib.be/cefs/.
(8) CEFS-CIBE, The Sugar Regime in the European Union, February 1998, p. 8.
(9) FIRS, Trente ans, 1998, p. 5.
(10) CEFS-CIBE, The Sugar Regime in the European Union, February 1998, p. 11.

ANNEX III

EU sugar supply balance

Production year (October to September)

(1 000 tonnes, white sugar equivalent)

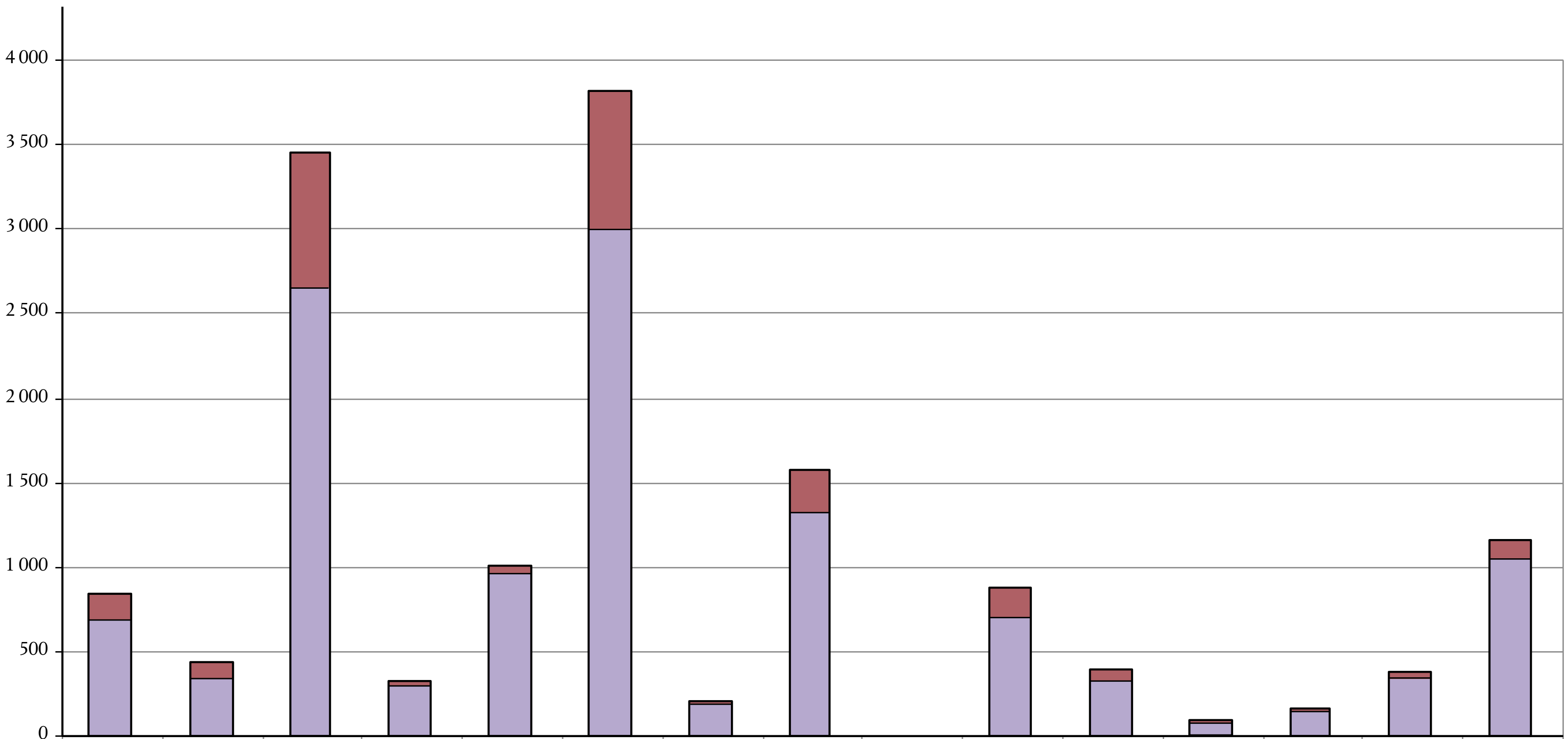
	1991/1992 EU 12	1992/1993 EU 12	1993/1994 EU 12	1994/1995 EU 15	1995/1996 EU 15	1996/1997 EU 15	1997/1998 EU 15	1998/1999 EU 15
SUPPLY								
Production of sugar from EU-grown beet and cane ([1])	**14 703**	**16 012**	**16 216**	**15 403**	**15 859**	**16 766**	**17 763**	**16 396**
Within quotas	13 130	13 747	13 298	13 412	14 278	14 398	14 616	14 218
In excess of quotas (C sugar)	1 573	2 265	2 918	1 991	1 581	2 368	3 147	2 178
Imports	**1 922**	**1 979**	**2 077**	**2 154**	**2 200**	**2 272**	**2 181**	**2 320**
Raw cane sugar for refining in the EU ([2])					1 755	1 755	1 616	1 729
Sugar for the supply of the Azores, Madeira and the Canaries					60	62	69	77
Sugar contained in processed products					385	455	496	514
Opening stocks					1 638	1 715	2 150	2 383
Closing stocks					1 715	2 150	2 394	2 320
Changes in stocks	**(321)**	**223**	**78**	**(728)**	**77**	**435**	**244**	**(63)**
USES								
Consumption	**11 966**	**11 939**	**11 623**	**12 615**	**12 559**	**12 727**	**12 710**	**12 748**
Exports	**4 980**	**5 829**	**6 592**	**5 670**	**5 181**	**5 681**	**6 865**	**5 827**
C sugar produced in excess of quotas					1 581	2 368	3 147	2 178
Quota and refined sugar exported with refunds					2 747	2 440	2 902	2 887
Sugar contained in processed products					853	873	816	762

([1]) Includes approximately 250 000 t p.a. of sugar produced from cane grown in Spain and French Overseas Departments.
([2]) Includes approximately 60 000 t p.a. raw cane sugar for direct consumption.
Source: European Commission.

ANNEX IV

EU sugar production quotas 1995 to 2001 by Member State

(1000 t white sugar equivalent)



	Belgium	Denmark	Germany	Greece	Spain	France	Ireland	Italy	Luxem-bourg	Netherlands	Austria	Portugal	Finland	Sweden	United Kingdom
B quota	146	97	812	29	40	806	18	248	0	182	74	7	13	34	104
A quota	680	328	2 637	290	960	2 996	182	1 320	0	690	316	73	134	336	1 040

THE COMMISSION'S REPLIES

EXECUTIVE SUMMARY

The EU and the world sugar market

The Commission would like to point out that the surplus on the world market (30 % of world production) is not structural but cyclical, with cane production having played the key role. World production for the 2000/2001 marketing year is forecast to be below the consumption figure by 3 to 5 million tonnes, and a production shortfall is likewise expected for the 2001/2002 marketing year. At Community level the area under sugar beet has been reduced by 12 % under the current system (even though production has remained stable) in order to improve the supply/demand ratio at world level, but the significant increase in cane sugar production has led to very low prices on the world market. Even though Community production is exceeding consumption, this has to be viewed against annual preferential imports of 1,6 million tonnes from the ACP countries. In the Commission's opinion, the quantities of sugar corresponding to those preferential imports should not enter into the calculation of the structural surplus, which concerns only Community production. Under the rules governing the CMO for sugar, the structural surplus (determined on the basis of production quotas) comprises approximately 10 % of consumption (1,3 million tonnes). (See Commission response to paragraphs 13 and 78(a).)

Budget cost

The net cost for 1999 was EUR 909 million; in 1998 it was EUR 706 million and in 2000 it is expected to be EUR 833 million.

The net cost of the CMO for sugar to the budget is the cost of exporting a quantity of sugar equivalent to imports from the ACP countries and India (1,6 million tonnes) resulting from the Community's international commitments under the ACP/EU Protocol and the agreement with India. The Court points out its importance to those countries as development aid, although under the accounting and budget rules this expenditure is classified as agricultural.

The wholesale price of unprocessed sugar is almost double the intervention price, and this consumption accounts for only 30 % of total consumption.

Processed product prices are higher in the Community than elsewhere in the world, and sugar accounts for about 5 % to 10 % of what the consumer pays.

Lastly, it has to be borne in mind that household spending on sugar in the Community is among the lowest in the world.

CMO for sugar

While the founding principles of the CMO for sugar (quotas + self-financing) have been reaffirmed constantly since 1968, the sugar regime has nevertheless responded to the various challenges faced over the years by undergoing continuous adjustment. For example, and leaving aside the successive enlargements of the Community, those adjustments have included:

— integrating isoglucose production,

— integrating the ACP Protocol linked to the Lomé Convention,

— full self-financing of Community production on an annual basis,

— integrating inulin syrup production,

— adopting a supply system for Community refineries,

— adopting mechanisms in order to comply with the GATT agreements.

The Commission would also like to stress that, even though the CMO for sugar was not included in the 1992 reform or in Agenda 2000, it incorporates several of the same objectives: control of production and of budget expenditure.

The Court's main findings

(a) As the Court states (paragraph 24), the Commission departments possessed extensive information about the sugar market. The Council received all the information it needed to take its decision. No national delegation asked the Commission to present other alternatives, apart from two which asked for prices to be reduced.

(b) The Commission is aware of the difficulties in obtaining information on the sugar industry's commercial situation. Confidentiality problems are inherent in gathering information on the sugar industry's actual production costs, and the same applies to the second-stage processing industry (which accounts for 70 % of the sugar volume consumed in the Union).

(d) The economies of the ACP countries, and in particular Mauritius, do indeed largely depend on the special arrangements for sugar continuing. That is why the ACP countries are very attached to maintaining the Sugar Protocol linked to the Lomé Convention.

(e) In order to meet budget and GATT constraints, the Commission is able to limit the export programme and reduce quotas if necessary. At all events, the Commission has always had to take into account the economic and commercial reality of the world market each marketing year when managing tenders.

(f) The Commission does not share the Court's view.

(g) The statistics used to calculate production levies are supplied by the Member States. Since the completion of the single market, its specific rules have made intra-Community trade statistics more difficult to obtain.

However, the self-financing nature of the system is attained not only on an annual basis but also on a multiannual one, and the checks carried out by the Commission show that the production levies still cover the cost of exporting Community surpluses.

The Commission nevertheless notes the Court's suggestions.

(h) Checks are carried out by the authorities responsible in the Member States: customs departments, Ministry of Finance departments and Ministry of Agriculture departments. The Commission in turn audits those checks via the accounts clearance procedure and by means of unannounced visits to sugar undertakings.

OUTCOMES

(b) While it is aware of the criticisms focusing on the lack of competition under the present system, the Commission would nevertheless like to stress that the product (sugar) placed on the Community market under similar guarantee conditions is homogeneous and of a quality which is valued highly both inside and outside the Community.

(c) See the comments above on the CMO for sugar.

INTRODUCTION

3. Annex I to the Court's observations describes the Community sugar budget for 1995 to 2000. Production levies significantly reduce the system's actual budget cost, as against even the gross budget amount. The net cost for 1999 was EUR 909 million; it was EUR 706 million in 1998 and is expected to be EUR 833 million in 2000.

The Commission would like to point out that more than 90 % of that net expenditure comprises the export costs for a quantity equivalent to the sugar imported from the ACP countries (1,7 million tonnes), and is therefore tantamount to a kind of development aid.

The Commission regards as excessive the Court's estimate of the cost borne by the consumer (see paragraphs 81 and 82).

THE EU AND THE WORLD SUGAR MARKET

10. World operating stocks are increasing in line with the rise in world consumption.

12. Community rules permit non-quota production, in excess of the quantities under Community guarantee.

This non-quota sugar must be exported unprocessed to the world market, and comply with the rules of the WTO.

13. The sugar surplus on the Community market is approximately 3 million tonnes, comprising a Community production surplus of roughly 1,3 million tonnes in relation to consumption which results from the beet production quota fixed by the Council, and a quantity of roughly 1,7 million tonnes equivalent to preferential imports from the ACP countries and India, on the basis of preferential agreements adopted by the Council.

An evaluation of that surplus should take into account that:

— operating stocks are also needed,

— sugar is exported in sugar-based products.

Lastly, it should be noted that Community white sugar finds an outlet on the world white sugar market, where there is an obvious demand which other countries cannot satisfy (at least in the short term).

MANAGEMENT BY THE COMMISSION

Commission proposals on quotas

18 to 31. The Commission welcomes the Court's acknowledgement that the Commission departments 'prepared a thorough assessment of the operation of the sugar regime, its impact and the challenges it faced. An internal working group considered a wide range of options for reform, some of them quite radical' (paragraph 24 of the Court's observations).

The Commission therefore had all the information needed to present its proposals to the Council, the European Parliament and the Economic and Social Committee — proposals which would significantly alter the system. The system was in fact rolled forward three times in four years pending the outcome of the GATT negotiations. During that stage preceding the Commission proposal for 1995 to 2001, the Commission, the Council and the Working Parties received all the information needed to take their decisions. The national delegations did not ask the Commission to present other alternatives, with only two delegations arguing in favour of reducing prices.

The Commission would stress that the Council voted for the Commission proposal by a very large majority (82 out of 87) with the favourable opinion of the European Parliament.

Annual proposals for institutional prices

Data used in preparing the price proposals

33 to 36. Since it cannot possibly have access to any industry's real production costs, the Commission draws up its analyses on the basis of data supplied by specialist professional bodies and publications as well as profit and loss accounts published by sugar companies.

The Commission would like to stress that institutional prices and hence also the manufacturing margin have effectively been frozen for over 15 years (there was even a 2 % fall in 1989/1990), which means that the prices and the margin have fallen in real terms over the period.

The results of the study to which the Court refers at paragraph 36 are not borne out by the facts.

Taking account of the CAP objectives

37 and 38. Maintaining minimum prices unchanged for 15 years has led to a price reduction in real terms for producers. A price cut, offset by direct aid to agricultural producers, would entail substantial budget costs exceeding the budget constraints for 2000 to 2006.

As regards environmental aspects, the amounts of fertiliser, herbicide and pesticide used for each tonne of beet or sugar produced is decreasing steadily (less used per hectare and increased yields per hectare).

The level of prices

39 to 41. The Commission would stress that:

(a) prices have been frozen since 1984/1985;

(b) the Council adopted its proposals by a very large majority;

(c) it is quite normal for the Commission to present only one proposal after examining the economic position and taking into account the political situation in the Community at the time.

The price for ACP raw cane sugar

42 to 45. After examining the evidence available for the ACP countries in respect of each marketing year, the Commission proposes prices to those countries which take economic factors into account as far as possible within the limits of the Community intervention price. Throughout the negotiations and in spite of those countries' requests, the Commission has always considered that a higher price would prevent their sugar from being sold unless there were a Community subsidy and would call into question the Community preference principle.

Management of the export programme

46 to 52. The theoretical calculation of refunds in the sugar sector is based on the intervention price and not on the internal market price as in other sectors. This calculation not only accords well with reality but also greatly restricts commercial companies' room for manoeuvre, their competitiveness being fundamentally dependent on the state of the world market.

The management of tenders must take into account the economic and commercial realities of the world market prevailing in each marketing year.

The organisation of the tendering procedures

53. Management of this CMO involves the Member States through the Management Committee. The tendering procedures are transparent; over the past five marketing years some 95 % of the opinions by the Management Committee have been favourable (223 favourable opinions out of 233 procedures).

54. The Commission cannot reconcile its duty of proper management with the use of speculative market factors as criteria in the tendering procedure.

The distribution of tendering procedures throughout the year helps to supply the market as a function of its needs and to issue greater licence tonnages when demand is greatest.

Self-financing arrangements

55 to 59. The Commission would like to point out that under current rules and the Marrakesh Agreement (WTO) the cost of disposing of Community production surpluses (not including the quantities corresponding to imports from ACP countries and India) is wholly covered by production levies. Self-financing of the regime is guaranteed not only on an annual basis but also on a multiannual one and the verifications carried out by the Commission demonstrate that expenditure on exporting the Community surpluses is effectively covered by the production levies.

56 and 57. Single market rules make the production of intra-Community statistics difficult because of the differing declaration thresholds operated by the Member States.

58. The Commission has already considered the use of licences and discussed it within the Management Committee. At the present time such a system would not solve the problems relating to processed products.

Administrative, control and financial arrangements of the CMO

59. Over the years the Commission's clearance of accounts unit has carried out controls of production and stocks, but the risk of unjustified expenditure is considered low and the control frequency reflects that assessment. The most recent controls carried out were in 1991 to 1994.

60 to 63. A Commission working paper addressed to Member States' authorities on control of the sugar storage scheme under Regulation (EEC) No 4045/89 was drawn up in 1999 to provide guidance to staff performing *ex post* controls under Regulation (EEC) No 4045/89. These controls are aimed at reconciling production and storage records with financial accounts and any other commercial documents in individual undertakings.

The Commission's responsiveness to the various stakeholders and to events affecting the CMO

67. The Commission was not obliged to consult the Management Committee for Sugar before starting its evaluation, neither does it have to consult the Committee when carrying out internal studies or arranging for external studies. However, the Management Committee was informed of the start of the evaluation of the sugar CMO and was given the tender specifications when the call for tenders was launched in April 1999.

REVIEW OF THE SUGAR REGIME

Introduction

68 to 70. The Commission will forward the sugar CMO evaluation report to the Court as soon as it is available. The report will be accompanied by the comments of the steering group, in particular its view of the quality of the evaluation.

Achievement of the objectives of the CMO

72. (a) The Court notes that farm income from sugar beet is 'up to twice that from alternative crops'. That comment should be qualified or subject to further explanation. The alternative crops considered for comparison are very probably cereals, in other words the most common and least profitable crops. If the comparison had been with potatoes or cotton, for instance, the result would have been quite different.

Beet growers also produce, for example, wheat and beef and it is their overall income which counts in terms of the objectives set for the CAP in the Treaty.

(d) The Union decided to limit quotas by region. This policy indicates a clear desire to safeguard a degree of production in all the regions of the Community so as to contribute directly to rural development both in terms of beet growing and in terms of sugar production. The Commission would point out to the Court that the objectives of multifunctionality in agricultural activities amount to a deliberate policy of rural development.

73. The Court itself indicates that world market prices are not a fully objective indicator. Prices in the Union are in fact no different from those in many other industrialised countries.

For example:

— Sugar prices in the United States, Canada and Australia are 2,9 times the level of world market prices. In the United States the sugar 'intervention price' fixed for 1996 to 2002 is similar to that fixed for the Community.

— In Norway, where all sugar is bought on the world market, consumer prices for white sugar are more or less the same as in the Community; for some processed products they are in fact considerably higher.

74. The increases in quotas shown in Chart 2 largely followed the successive enlargements of the Community. The increase in quotas in the 1970s was linked to sugar supply shortages. In the 1990s, EU surplus production remained fairly stable.

The current surplus situation on the world market is due to considerable increases in production in a number of the other main sugar-producing countries. The world market is increasing by some one million tonnes per year while Community exports to that market remain stable (5 to 5,5 million tonnes) and are not subject to cycles. Brazil, on the other hand, which has incidentally also implemented a bio-alcohol programme, increased its exports in the 1990s from 1,5 million tonnes per year to 11,0 million tonnes in 1999/2000 on a total world market of some 38 million tonnes; Thailand and Australia have also increased their exports. In the latter country direct production aid and structural aid have been implemented.

75. Sugar beet growers are not specialist producers but also producers of wheat, beef, etc. The following table gives an idea of the significance that beet growing has in some regions of the Community:

Region	Percentage of total holdings growing sugar beet (1997) (1)	Percentage of regional agricultural area under sugar beet (1997) (2)	Percentage of total agricultural output (1995) (2)
Belgium	22,0 %	6,9 %	4,8 %
Lower Saxony	14,1 %	4,9 %	4,7 %
Saxony-Anhalt	30,3 %	5,1 %	10,4 %
Picardy	53,6 %	12,5 %	22,6 %
Nord/Pas-de-Calais	45,3 %	7,8 %	9,5 %
Emilia-Romagna	13,8 %	6,2 %	4,5 %
Marche	15,5 %	8,2 %	10,1 %
East Anglia	37,8 %	10,9 %	10,5 %

(1) Farm structure survey.
(2) Regio database.
Source: Eurostat.

The cost of achieving the objectives

78. (a) It is the Commission's opinion that the sugar quantities offset against preferential imports must be excluded from the calculation of the structural surplus, which should only concern Community production. Under sugar CMO rules the structural surplus, drawn up on the basis of production quotas, is some 10 % of consumption, 1,3 million tonnes, of which the Community is allowed to export 1,2735 million tonnes under the WTO agreements.

(b) The world price is not a particularly objective indicator, as the Court itself acknowledges in paragraph 82 of its report.

(c) Stocks run at 2 million tonnes, but only 1,1 million tonnes are normally available, and this is less than 10 % of consumption.

(d) The Commission is aware of the fact that the system has been subject to criticism implying that the lack of competition is due to the highly segmented nature of the market and to concentration in the sector. However, the Commission endeavours to restrict the anti-competitive effects of the system by actively applying Community competition rules in the sugar sector, as can be seen from the numerous anti-trust proceedings and the fines recently imposed (British Sugar 1997, Irish Sugar 1999).

(e) In the Commission's opinion the cost of such controls in terms of the organisation of an entire sector is reasonable in comparison to the production levies.

80. The production levies and the cost of exporting a quantity equivalent to imports from ACP countries, which form the major part of budget expenditure, are independent of consumption.

The method of calculating production levies is based on identifying the proportion of expenditure to be borne by Community producers.

81. The sum of EUR 6 500 million is not representative and does not, in the Commission's view, reflect economic or budget reality. It is based on a calculation supported by basic data (world and intervention prices) which have only a theoretical significance. The world price of EUR 200 per tonne used by the Court is not a relevant indicator of consumer price both because it is highly volatile and given its current level, which is less than the most efficient producers' production costs. In fact, the Court itself indicates that it is not a 'fully objective indicator'.

Moreover, the Court's calculation does not take adequate account of the economic realities linked to equilibrium on the sugar market. If the Community had to draw its supplies from the world market, the additional demand which that would generate would immediately push up world prices significantly.

The CMO for sugar is, like other CMOs, based on Community preference combined with an intervention scheme and export arrangements. This leads to very stable prices and supply to consumers and the processing industry, who are sheltered from the excessive volatility of the world market. The world sugar market is currently typified by a surplus caused by an increase in the production of cane sugar — in particular in Brazil because of the subsidies on its market for cane-based alcohol — while Community sugar production has remained stable. World demand — although it has increased — cannot absorb that increase in production. The result has been an increase in world stocks in recent years, and these currently represent some 50 % of world consumption.

82. It should be remembered that the carry-over stocks (approximately 1,0 million tonnes) are released only in the event of natural disasters. Moreover, the Commission has proposed that the Council discontinue the monthly storage refunds for carried-over C sugar, but the Council has regularly rejected this proposal.

A distinction should also be made between the compulsory minimum stocks (approximately 0,4 million tonnes) and the stocks considered necessary by the trade (approximately 0,84 million tonnes). The Commission therefore does not agree with the Court's calculation of the cost of Community stocks to the consumer. In reality this cost remains stable because the system makes it possible to ensure normal supplies.

83. Concentration in the sugar industry has followed a similar path to that in other sectors with market organisations different to the sugar regime.

84. The Commission considers that including isoglucose and inulin syrup in the market organisation for sugar was justified because these markets are interdependent and because the move reflected a political will to maintain sugar production. The Community must control production of isoglucose, which is manufactured from raw materials most commonly imported without financial constraints from non-member countries, just as it controls sugar production, which is restricted by the system of quotas with Community producers assuming financial responsibility. This fundamental aspect has been recognised by the Court of Justice.

85. The Member States currently withhold 10 % of contributions. As of 1 January 2001, that percentage will increase to 25 %. Thus, the figure of EUR 290 million is only indicative, as the exact amount withheld will depend on the actual amount of contributions.

86. It is correct that the Community budget and the consumer pay a price for the CAP. The sugar regime is part of this, although it must be remembered that the Community's production under quota is self-financing.

Any cost should be seen in the light of the objectives of the CAP stated in the Treaty and the Union's international obligations. Account must also be taken of the residual character of the world market for sugar, where prices are generally lower than the production costs of most efficient producers.

The mechanisms of the CMO for sugar, in particular the level of the production quotas and price support

89. See the Commission's reply to paragraph 73.

90. The Commission sees the fact that sugar is not offered for intervention as a sign that the CMO and storage arrangements are functioning and that exports are being soundly managed by the Management Committee and Commission departments.

91. The Commission is aware of the criticism that the market is partitioned and that competition in the sector is not very strong. However, it considers that these phenomena are partly due to the nature of the product: homogeneity, stable demand and high transport costs. Moreover, intra-Community trade accounts for more than 30 % of the consumption of unprocessed sugar and 26 % of the consumption of sugar in the form of processed products.

92. While sugar is indisputably a basic product, it represents a very small share in household budgets. In percentage terms, sugar accounts for between 0,2 % and 0,3 % of total consumer expenditure at Community level. A system based on reducing the price of sugar and providing direct support to growers from the budget would certainly impact on the budget, but it is not certain that a drop in ex-refinery sugar prices would be passed on to the final consumers of sugar and processed products.

The CMO for sugar: the 1992 and Agenda 2000 reforms

94. See the Commission's reply under the heading 'CMO for sugar' in the Executive Summary.

Mechanisms are in place to ensure that manufacturers pay a minimum price to farmers.

Moreover, sugar beet is perishable.

95. See the Commission's reply to paragraph 94.

96. See the Commission's replies to paragraphs 81 and 82. The Court has based its argument on a level of export refunds valid during a period when world prices were at their lowest for 30 years.

97. The environmental problem involving water comes from irrigation, which is regulated by national policy. Moreover, beet is irrigated only in some southern regions of the Community, and any alternative crops would also be irrigated in those regions.

If there is a water issue in this context, it is the possible pollution of groundwater. In this connection, the practice of putting in beet late in the year after the main crop depletes nitrogen in the soil. However, this danger is minimal because industrial-quality beet is not compatible with over-fertilising.

As for weedkillers and pesticides (see paragraph 38), thanks to technical progress the quantities applied per hectare can be reduced while obtaining a higher yield.

CONCLUSIONS

99. (a) and (b) It is difficult to obtain precise information, particularly on the production costs of the sugar industry, owing to the requirements of confidentiality. However, the Commission has a broad range of information from the Member States, professional organisations, sugar manufacturers and their customers; although this information reveals conflicting interests.

100. In the Commission's view, the quantities of sugar imported under preferential arrangements need not be included when calculating the structural surplus, which concerns only Community output. Imports from the ACP States (1,6 million tonnes) or an equivalent quantity can be exported without affecting the Community's international commitments under GATT. Under the Regulation governing the organisation of the market in sugar, the structural surplus, which is calculated on the basis of the production quotas, is approximately 10 % of consumption (1,3 million tonnes).

(See also the reply to paragraphs 13 and 78(a))

The net cost to the budget (EUR 660 million) corresponds in practice to the cost of exporting a quantity of sugar equivalent to the imports from the ACP States and India (1,6 million tonnes) resulting from the Community's international obligations under the ACP/EU Protocol and the agreement with India.

Lastly, regarding the cost to consumers, 30 % of sugar is consumed unprocessed, while the remaining 70 % is consumed in the form of processed products.

101. Still regarding the cost to consumers, the price of unprocessed sugar at the wholesale stage is approximately twice the intervention price, while the sugar consumed in processed products represents only 5 % to 10 % of the price paid by the consumer. In terms of purchasing power, the Community sugar price is among the lowest in the world.

See also the Commission's reply to paragraph 108.

102. The Commission wishes to stress that ever since 1968, and even more so since 1986, the sugar CMO has sought a number of the objectives pursued by the 1992 reform and Agenda 2000, namely controlling production and budget expenditure. In addition, competitiveness on world markets is ensured by the export regime for quota sugar and the disposal of non-quota sugar. The rules of environmental protection apply as much to beet growing and the sugar industry as to any other crop or industry, although there is room to strengthen environmental policy still further. Rural development is stimulated by the substantial economic activity generated by beet growing and the sugar industry in rural areas.

With regard to greater accountability to the taxpayer, the net expenditure in the budget corresponds to the cost of the Union's commitments to the ACP countries and India.

103. The Commission wishes to stress that sugar beet does not require single-crop farming, and that beet growers are consequently also producers of wheat and beef. In fact, the average area sown to beet per farmer is six to seven hectares. Moreover, in the agricultural areas where the sugar industry is established, almost all farmers have been allocated a quota.

104. The Commission is continually reviewing the sugar regime and examining alternatives. The drawbacks of the alternative solutions proposed by the Commission during the 1990s outweighed their advantages over the current arrangements.

105. The option of adopting the mechanisms of the 1992 reform, as mentioned by the Court, would have a very high cost to the budget (EUR 1 125 million to achieve a 25 % price cut with only 50 % compensation to growers) which would be impossible to meet from the resources available under the financial perspective for 2000 to 2006 as set in Berlin in March 1999 and confirmed by the European Parliament.

106. See the Commission's reply to paragraph 105.

The Commission's replies to paragraphs 88 to 93 show that the mechanisms currently in place under the market organisation for sugar are adequate.

107. The current quota arrangement expires at the end of the 2000/2001 marketing year. On 4 October the Commission decided to propose to the Council some temporary amendments to the market organisation for sugar for a two-year period and to undertake the necessary impact studies with a view to reforming the sector. These studies will examine, among other things, the critical points raised by the Court of Auditors and other parties.

At this stage, there is still considerable uncertainty over a number of technical aspects likely to affect any radical change in the sugar regime. Moreover, the current arrangements and all possible changes to them must be examined in the light of their impact on both the sector itself and on the competing crops, aid for industry, employment, consumers, the remotest regions and the least-developed countries in particular, and the pros and cons must be carefully weighed.

A sweeping reform of the sector in response to such criticism will require a review of both the quota system and the level of intervention prices. Aspects such as high market concentration, lack of competition and the difference between the price paid to growers and that paid by consumers concern not only the sugar sector, but the food industry as a whole. Interrelationships of this complexity deserve thorough analysis.

The Commission is planning to carry out a study to evaluate the aspects touched on above as well as the level of competition in the main food sectors (not only sugar, but also meat, milk products and cereals).