15 February 2017

CEFS' six priorities for EU trade policy

As a result of the 2013 CAP reform, the EU will from 1 October 2017 become one of the most deregulated sugar markets in the world. By contrast, most world sugar producers and exporters are maintaining or even increasing their subsidies and other market-distorting measures. Therefore, CEFS calls for a trade policy that will allow the EU sugar industry to compete on a level playing field on the EU and world markets. To this end, we have identified six priorities:

1) **Maintain the EU's import tariffs on sugar:** The EU's current import tariffs on raw and white sugar must be maintained. This includes the EU's Most Favoured Nation tariffs, the 98 EUR/tonne CXL duty, and the WTO special agricultural safeguard (SSG).

2) **Eliminate trade-distorting support measures:** Third country trade-distorting support measures must be addressed, both at WTO level and *via* the EU's Free Trade Agreements.

3) **No level playing field, no concessions:** Where no level playing field exists, the EU must not offer market access concessions on sugar and high sugar-containing products in the context of its trade negotiations.

4) **Support the creation of added value through strict rules of origin:** The EU should maintain strict rules of origin in order to maximise the local added value for the contracting parties.

5) **A net exporter clause:** Where a risk of triangular trade exists, the EU must insert a net exporter clause into its trade agreements.

6) **Foster opportunities for export on a level playing field:** CEFS calls on the Commission to open new markets for EU sugar. Where a country is a sugar importer, the EU sugar industry has clear offensive interests in future trade negotiations. However a level playing field with those countries must be ensured.

Priority 1: Maintain the EU's import tariffs on raw and white sugar

The EU sugar sector has worked hard to increase its competitiveness and now ranks among the most efficient worldwide, both in terms of yield and in sugar production per factory. Yet this does not mean that the EU should unilaterally reduce its duties on sugar imports. Although efficiency is an important element in keeping production costs down, other factors are also at play. These include the regulatory environment and exchange rates (see figure 1, next page).

Many sugar producers in structurally-exporting countries benefit from trade-distorting government support policies that reduce their production costs and make them artificially competitive on the world market. Meanwhile, non-structural exporters use the world market as a 'clearing house' for excess sugar in order to keep domestic supplies tight and prices high. Exchange rates can also play a huge role: the heavy depreciation of the Brazilian Real over 2014 and 2015 was instrumental in depressing global sugar prices. The result of government regulation and weak currencies is that the world sugar market has become a residual dump market that until recently traded at below the costs of production of even the most efficient producers and exporters.

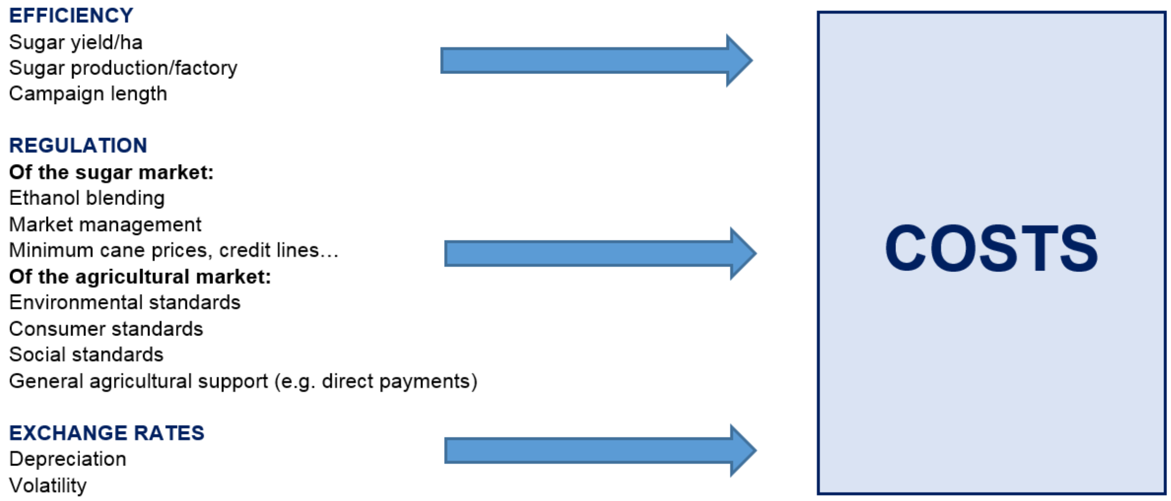

Figure 1: *Contributing factors to sugar production costs - a holistic perspective. Source: CEFS.*

Substantial openings for sugar imports into the EU already exist and the market availability of third country sugar on the EU market has increased strongly since 2011/12 (see figure 2, below). Duty-free market access concessions under bilateral agreements with Central America, Colombia, Peru, Ecuador, Ukraine, Georgia, Moldova, South Africa, and the Western Balkan countries currently total 700,000 tonnes per annum. Annual availability of sugar under the CXL quota, which is divided between Brazil, Australia, Cuba, India and all third countries (‘Erga Omnes’), also totals almost 700,000 tonnes, and could rise to almost 800,000 tonnes before the end of the 2016/17 marketing year. Such imports may enter the EU at a much-reduced duty of 98 EUR/tonne – a multilateral concession agreed at the WTO.

Most substantially, the ACP/LDC countries have benefited from duty-free, quota-free access to the EU sugar market since 2009. The EU sugar market is the world’s most open to sugar coming from the least-developed and developing countries: between 2011/12 and 2015/16 sugar imports from such countries averaged 1.9 million tonnes per marketing year. As much harm as cutting duties on imports of third country sugar into the European market would do to EU producers, it would also erode the preferential access enjoyed by the ACP/LDC and hamper their overdue economic development.

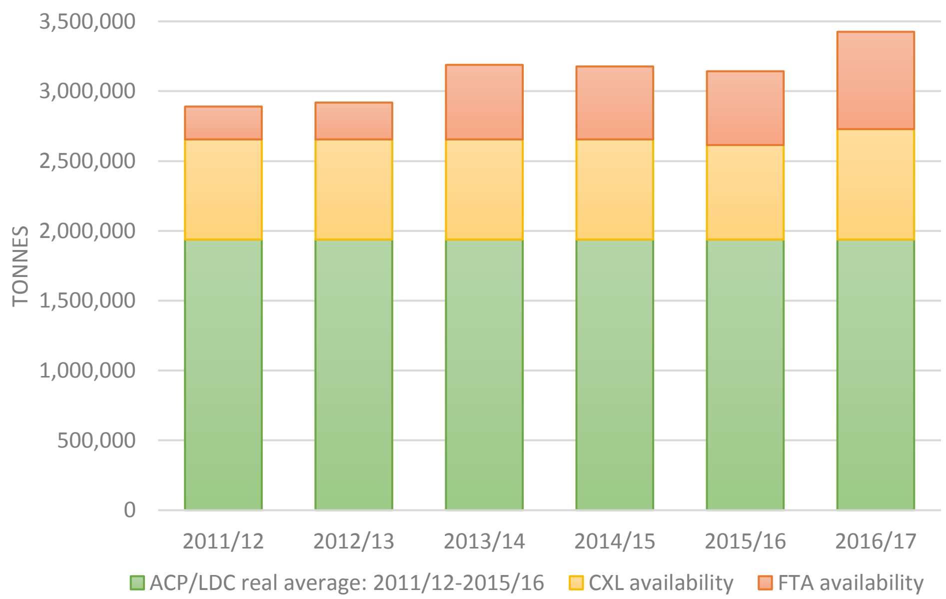

Figure 2: *EU market availability of third country sugar as such: duty-free from FTAs; reduced duty under the CXL quota; duty-free and quota-free from the ACP/LDC. NB: market availability from the ACP/LDC is represented by the average real imports for 2011/12-2015/16. The maximum import potential of ACP/LDC sugar into the EU is c. 6.2 mmt per annum, based on total exports in 2015. (ISO Yearbook. 2016).*

With the end of production quotas the function of the EU's border protection will be to protect the EU sugar sector from unfair competition and an artificially depressed world market. Any move to reduce or abolish the EU's border protection would put negative pressure on EU prices and exacerbate volatility on the EU sugar market.

Priority 2: Eliminate trade-distorting support measures

Trade-distorting support measures and other market distorting policies must be tackled, both at WTO level *and* through the EU's Free Trade Agreements. The Nairobi Ministerial Decision on Export Competition has shown that the members of the WTO can still take decisive action to address policies that distort trade. CEFS calls on the EU to question the major sugar producers and exporters on their public support measures in the WTO Agriculture Committee. Where this fails to lead to substantial policy changes, the European Commission must be prepared to challenge them in the dispute settlement body. CEFS would favour a multilateral agreement to properly limit the trade-distorting help that the major sugar producers and exporters can give to their sectors and to promote fair competition on a global scale. In parallel, CEFS calls on the Commission to use its influence during trade negotiations to leverage reforms to the distortive sugar policy measures employed by its interlocutors.

Priority 3: No level playing field, no concessions

Where no level playing field exists, CEFS asks that no further market access concessions on sugar or high sugar-containing products be granted in trade agreements. Before the EU offers such concessions, it must be demonstrated that the products concerned do not benefit from government support and export subsidies as defined in the WTO Agreement on Agriculture. This is the only way of preventing subsidised sugar from entering the EU market and ensuring fair competition for the EU sugar industry. The alternative – the entry of more subsidised sugar into the EU – would push down prices and import volatility, potentially leading to factory closures and job losses.

Currently, major players on the world sugar market such as Brazil, Thailand, Mexico, and India offer huge financial and regulatory support to their sugar industries that is not matched by the EU. A snapshot is offered below.

Governmental Intervention in the major sugar producing and exporting countries

BRAZIL, the world's largest sugar exporter with more than 40 per cent of world sugar exports, intervenes in its cane, ethanol and sugar sector through various governmental programmes, e.g. mandatory ethanol blending, soft loans, debt restructuring and waivers. These measures are worth an estimated $2.5 billion per year,[1] enabling Brazilian producers to stay profitable even when world sugar prices are below nominal production costs. The volatility of Brazil's exchange rates and arbitrage between the sugar and ethanol sectors (the production of which is inseparable) causes considerable price and supply volatility on the world market.

The sugar regime of **THAILAND, the world´s second largest sugar exporter,** closely resembles the EU's policy prior to 2006, which was ruled incompatible with WTO law (cf. DS266). Thailand applies sales quotas for the domestic and world markets (Quotas A & B) and a market clearing system (Quota C) together with fixed sugar prices, minimum cane prices, import restrictions and direct government support. As a result of this favourable policy environment Thailand's sugar exports more than doubled between 2005/06 and 2014/15, from 3 million to 7.3 million tonnes, according to the International Sugar Organisation.

[1] Patrick Chatenay. 17 April 2013. Government support and the Brazilian sugar industry. Pro-Sun Energy. Prepared for the American Sugar Alliance.

MEXICO, the fifth largest world sugar exporter, supports sugar production and exports through huge government intervention and subsidies, including marketing arrangements that see two-thirds of Mexican sugar production organised within the Mexican sugar chamber; minimum cane prices; debt restructuring/forgiveness; and government grant programmes to finance inventory, exports and inputs. In October 2015 the U.S. International Trade Commission ruled that imports of Mexican sugar to the U.S. had been subsidised by margins of up to 44 per cent and dumped by margins of up to 42 per cent.

INDIA, is a sugar "swing state", swinging from a net exporter to a net importer in a production cycle induced by high minimum cane prices. As **the world's second biggest producer**, biggest consumer, and sometimes the third biggest exporter, this makes India a destabilising influence on the world market. The Indian government controls the amount of sugar that is sold on the domestic market and the industry has benefited from government policies such as high minimum cane prices, subsidised inputs for growers and preferential loans. The Indian government uses trade policy as a market management tool, offering export subsidies when stocks weigh on prices.

Priority 4: Support the creation of added value through strict rules of origin

It is essential that strict rules of origins are maintained. This is essential to ensure that the added value of an FTA goes to those that it is supposed to benefit: the contracting parties. Rules of origin are an important tool to prevent third countries from profiting from market access concessions not intended to benefit them. They are necessary to minimise the quantities of third country sugar that may be used in the manufacture of high sugar-containing products traded between the partner countries. They are therefore essential to preserve the existing market share of EU producers.

Strict rules of origin should also allow EU sugar producers to benefit from the new market access concessions for EU exports of high sugar-containing products in free trade agreements. Strict rules of origin would ensure that such exports contain as much European sugar as possible, and would therefore help keep added value and jobs within the EU.

Priority 5: A net exporter clause where there is a risk of triangular trade

It is common in the world sugar market for countries to export their own sugar production to fill lucrative import quotas and import cheap, often subsidised, foreign sugar to meet their domestic consumption. Where the risk of such triangular trade exists, the EU must insert a net exporter clause into its free trade agreements. A net exporter clause would stipulate that the quantity of sugar from the partner country that can enter the EU under a given import quota in a given year may not exceed the partner country's sugar trade surplus in the most recent year for which data is available. In the event that the country records a trade deficit in the preceding year, it may not avail itself of the market access concessions offered by the import quota in the current year.

Priority 6: Foster opportunities for export on a level playing field

With the removal of limits to export from 1 October 2017, CEFS members are looking for opportunities to export. Where a country is a sugar importer and is not subsidising its industry, the EU sugar industry has clear offensive interests. CEFS will make clear to the Commission when the opening of new third country markets would benefit EU sugar producers. This opening must take the form of market access for EU white sugar, which must not be subjected to discrimination in favour of imported raw sugar. Further, CEFS calls on the European Commission to do everything possible to fight the arbitrary imposition of trade defence instruments on EU sugar exports to third countries. We stand ready to offer the necessary support to such proceedings.