Brussels, 28 April 2017

CEFS position on the CAP post-2020

CEFS represents 61 sugar producing companies in the EU and Switzerland. Together, these companies make up a primary processing industry in the food supply chain with close and strong links to the farming sector. The principal activity of CEFS members is the extraction of sugar from sugar beet purchased from European farmers. Some CEFS members also import raw cane sugar for refining.

Sugar: economically, socially and environmentally sustainable

The sugar industry has taken a pro-active approach to steadily increase its productivity and competitiveness over time. In spite of inflation, production costs have barely increased since 1990.[1] Meanwhile, sugar beet yields and sugar production per factory have risen substantially. These trends accelerated with the major restructuring of the sector that began in 2006 and ended in 2009.

Sugar factories are for the most part located in rural areas characterised by low rates of industrial job creation. These factories are often the economic backbone of the regions where they are located. The EU sugar sector provides 28,000 direct jobs and a further 150,000 indirect jobs, and is supplied by 137,000 sugar beet farmers. Strong relations with employees have been accompanied by longstanding social dialogues at European and national levels.

Sugar producers are constantly working to reduce the environmental footprint of the sector. Along with farmers and unions, the EU sugar sector has founded the EU Beet Sugar Sustainability Partnership, which seeks to contribute to the development and dissemination of good social and environmental practices in areas such as energy usage, water and soil management, and the circular economy.[2] Notably, sugar production uses the whole of the beet to produce a range of products in addition to sugar, such as ethanol, animal feed, biogas and construction materials.

[1] Since the 1990/1991 sugar marketing year CEFS has commissioned an annual survey on the manufacturing costs of the EU sugar sector.

[2] For more information, you are welcome to visit http://www.sustainablesugar.eu/

Sugar in the Single CMO

Sugar is unique among the products covered by the Single CMO Regulation:

- First, the sugar industry is highly capital intensive and has to be operated at scale to be competitive. Sugar factory construction entails substantial investment – normally several hundred million euros for each plant. Operating costs are also substantial. Only in very exceptional circumstances is it possible to restart sugar production once a sugar production facility has been closed down.
- Second, sugar beet must be cultivated in close geographical proximity to the factories that process it. This is because of the relatively high cost of beet transport – six to seven tonnes of beet are required to produce one tonne of sugar.

These two factors have given rise to a situation of deep mutual dependence between farmers and processors. Farmers are reliant on sugar producing companies to provide the fixed capital and expertise to extract the sugar from their beets, and processors are dependent on their contracted farmers to supply the crop. To minimise beet transport costs, farmers also need to be located in close geographical proximity to their sugar factory.

The unique characteristics of the sugar industry have led to the rules governing contractualisation in the sector being defined in the regulations in much greater detail than normal. This offers sugar beet farmers more contractual security than in any other agricultural sector. Detailed contract conditions are set out in Annex X of the Single CMO regulation, which stipulates *inter alia* that delivery contracts are compulsory and that the terms for buying sugar beet are to be fixed in compulsory agreements within the trade concluded between growers and sugar undertakings (or their respective organisations). Uniquely, value-sharing clauses may be agreed between a sugar producer and its beet suppliers.

Currently, the EU sugar sector is preparing for one of the biggest changes in its history: the end of production quotas that have existed since 1968. The end of quotas presents substantial opportunities for EU beet sugar manufacturers, in particular the possibility to produce more sugar for food use and to export without limits. To benefit from these openings, the EU beet sugar industry has worked hard to increase its competitiveness.

Nevertheless, the end of production quotas could put the sector under pressure. Competition will intensify, lower white sugar prices are possible, and isoglucose is expected to take an increased market share. Less competitive EU beet sugar manufacturers may struggle to survive in a harsher market environment. This could have consequences for the 28,000 direct workers and 137,000 farmers that depend on the sector, as well as for the vulnerable rural communities of which sugar factories are often the economic backbone. In this challenging context it is essential that the CAP be fit for purpose.

CEFS' priorities for the CAP post-2020

1. Preserving the relationship between farmers and processors

Beet contract terms and conditions covering the period after 2017 are set out in detail in Annex X and other articles in the Single CMO regulation. These have recently been supplemented by the European Commission's new delegated act, which allows value-sharing clauses to be included in beet contracts on a voluntary basis.[3] No other sector in the Single CMO Regulation has such detailed provisions or references to value sharing. The delegated act has been welcomed by both farmers (represented by CIBE) and CEFS. It represents a balanced compromise between growers, on the one hand, and processors, on the other hand. Any move to include further mandatory conditions, or to make such value sharing clauses compulsory, would disturb this balance and undermine the competitiveness of the sector. It would also reduce the flexibility the sector needs as it moves towards a deregulated and market-orientated environment after October 2017.

2. Rapid and objective crisis response

CEFS welcomes the new horizontal legislation on aid for private storage that was agreed in July 2016. However, for the sugar sector it is not clear under what circumstances such aid might be introduced. The conditions for the activation of the private storage aid process must therefore be adequately defined to ensure that they are effective in dealing with any crisis in a timely way.

With the end of production quotas, private storage aid will be the only specific and defined tool to support the sugar sector in the event of a crisis. General crisis provisions, like Article 222 of the Single CMO, should therefore also be maintained as an option. CEFS is committed to work with the Commission to investigate how, and under what conditions, Article 222 might be activated. Any decision to deploy it must involve all sugar producers.

3. More balanced market transparency

The sugar sector is one of the most transparent in the Single CMO; operators have long been obliged to report monthly prices, production and stocks, and this obligation will remain into the post-quota period. From 1 October 2017 sugar beet prices are also to be notified to the European Commission.

Unfortunately, the high degree of market transparency that characterises the sugar processing sector – whose beet purchase prices and sugar selling prices will be disclosed – is not matched by transparency further down the supply chain. Evidence suggests that price transmission along the sugar supply chain is low.[4] CEFS supports the recommendations of the Agricultural Markets Task Force to extend market transparency downstream.

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[3] Delegated Regulation 1166/2016 allows a sugar undertaking and the beet sellers concerned to agree on value sharing clauses, including market bonuses and losses, determining how any evolution of relevant market prices of sugar or other commodity markets is to be allocated between them.

[4] Cf. Areté, October 2012. STUDY ON PRICE TRANSMISSION IN THE SUGAR SECTOR. Final report. European Commission, DG Agriculture and Rural Development. TENDER N° AGRI-2011-EVAL-03.

4. More help for farmers, where there is added value

In the context of a substantially deregulated EU agricultural sector, CEFS recognises that risk management may be an avenue to explore.

CEFS notes that a number of risk management tools already exist in the EU legislation, and agrees that the parameters of those tools could be changed so that they are more attractive to farmers.

However, if a provision to establish sectoral Income Stabilisation Tools is introduced as part of this initiative, this should not apply to sectors where contractualisation is already established and working well. Such tools should therefore not apply to sugar beet, which already benefits from detailed beet purchase terms and conditions set out in the regulations that are effectively implemented throughout the sector in a transparent way.

5. Direct payments

CEFS supports the continuation of decoupled direct farm payments beyond 2020 under the basic payment scheme. Direct payments are an important source of income for farmers, who provide a range of public goods.

Voluntary coupled support must not distort the Single Market, and the rules governing it must be strictly enforced. Most importantly, it should not lead to an increase in production. In accordance with Article 52(3) of Regulation (EU) No 1307/2013, Member States must be obliged to demonstrate that sectors in receipt of voluntary coupled support are undergoing certain difficulties.

6. Coherence with EU trade policy: the third pillar of the CAP

CEFS members look forward to the freedom to export without limits from 1 October 2017 that will result from the end of sugar production quotas. We are committed to working with the EU to identify export opportunities for our sector.

However, the CAP post-2020 review must take a holistic approach regarding the impact of the EU's trade policy on agriculture. It is also essential to recognise the role that the EU's import policy plays in the sugar sector. The EU already offers considerable access to its sugar market for third countries, including duty-free, quota-free access for ACP/LDC countries, and duty-free or low duty access for a wide range of other import partners. These concessions go well beyond the EU's WTO commitments and are unique in the international context. The EU market must not be further opened to third countries that support their sectors with trade-distorting subsidies. Nor should it be opened to those countries that employ damaging and unsustainable practices to increase their competitiveness at the expense of workers and the environment.

It should also be recognised that the world sugar market is a residual market which often trades below average global costs of production. It cannot, therefore, be used as a basis for designing sustainable domestic sugar policy at EU level.