European Economic and Social Committee

CCMI/151
Industrial change in the EU beet sugar industry

OPINION

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Industrial change in the EU beet sugar industry
(own-initiative opinion)

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	Own-initiative opinion
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1. Conclusions and recommendations

1.1 The EU beet sugar industry is preparing for one of the biggest changes in its history: the end of production quotas on 1 October 2017. The end of quotas presents opportunities for EU beet sugar manufacturers, in particular the possibility of producing more sugar for food use and exporting 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 also creates additional risks and uncertainties and could put the sector under pressure. Competition will intensify, putting pressure on prices for both growers and processors, while isoglucose is expected to take an increased market share. Less competitive EU beet sugar manufacturers and growers may struggle to survive in a harsher and more volatile market environment. This could have serious consequences for workers, undertakings, farmers and rural communities. It is essential that policy-makers remain vigilant as regards the future of the sector.

1.2 Aid for sugar private storage will be the only specific instrument that remains as an option to support the EU beet sugar industry after the end of production quotas. However, in the event of a market crisis in the EU beet sugar sector, it is not clear under which circumstances such aid might be introduced. The conditions for the activation of aid for private storage must be better defined so that the system is fit for purpose. The European Commission could consider defining an objective price threshold that would trigger the decision-making process for the activation of aid for private storage. This would make the process less subjective, and promote the rapid and uniform introduction of such assistance in times of crisis. General crisis provisions, such as Article 222 of the Single CMO Regulation, should also be explored as an option. This committee welcomes the setting up of the Sugar Market Observatory; so long as its composition is balanced and it is convened in a timely manner should market difficulties arise.

1.3 The CAP should include market tools that support continued sugar production in the EU Member States. The EU beet sugar industry contributes decisively to job creation and economic activity, as well as the competitiveness of the food and drink industry. Currently the CAP allows Member States to grant coupled support to sectors or regions where specific types of farming or specific agricultural sectors that are particularly important for economic, social or environmental reasons are experiencing certain difficulties. This is the case for sugar beet cultivation in vulnerable regions. Coupled direct payments should be focused on reducing the risk of a decline in and/or the abandoning of beet sugar production in such regions in order to avoid rural desertification and preserve biodiversity. In the context of increased volatility, direct support for farmers should be supplemented by better access to risk management tools. The interdependence of processors and farmers is the reason for the specific contractual framework that regulates the relationship between growers and processors in the sector.

1.4 In the event of unfavourable developments in the EU sugar market from 1 October 2017, redundancies may occur. The European Commission should explore the suitability of the different Structural and Investment Funds (ESI) in order to support regional or local employment, particularly for workers and farmers affected by possible utility closures. It may be necessary to make exceptions regarding the criteria for the introduction of some of these funds.

1.5 From 1 October 2017, EU beet sugar manufacturers will be obliged to notify both the selling price of their principal product and the purchase price of their primary input. This degree of market transparency is not matched by transparency further down the supply chain and by isoglucose producers. The European Commission should consider the recommendations of the Agricultural Markets Task Force to extend market transparency downstream to the users of sugar, to give a better picture of how value added is shared along the supply chain. Market transparency – be it for sugar and isoglucose producers or sugar users – must not affect the competitive positions of those undertakings affected.

1.6 Increased sugar exports will be crucial for the EU sugar industry after the end of quotas. The European Commission should promote EU sugar exports and challenge the arbitrary imposition of trade defence instruments by third country importers. The European Commission should exercise caution in its pursuit of trade liberalisation in the context of the EU's free trade negotiations. It should challenge the trade-distorting support policies of the major world sugar producers and exporters more assertively, both at the WTO and during bilateral trade negotiations.

1.7 Fostering alternative outlets for sugar beet – such as bioethanol, animal feed, bioplastics, and bio-based chemicals – will be essential for the sector's future competitiveness. The European Commission should maintain the 7 per cent cap on biofuels that can be counted towards the 10 per cent target for renewable energy in transport. Annex IX to the Renewable Energy Directive (2009/28/EC), which classifies molasses as an advanced biofuel feedstock, should remain unchanged. The European Commission and European Investment Bank should work to stimulate and enhance innovation in the domain of other bio-based co-products. This could take the form of an EU Innovation Fund and a programme of low-interest loans.

2. The importance of beet sugar production for rural areas and the environment

2.1 The European Union is the world's leading producer of beet sugar. On average, 17.2 million tonnes were produced each year between 2011/12 and 2015/16. Sugar-producing companies purchase around 107 million tonnes of sugar beets yearly from 137 000 European growers. Sugar beet is mainly transformed into sugar, but a considerable quantity is processed into other products, such as animal feed, renewable ethanol and bio-products. Such products can play an important role as a buffer in case of over-supply.

2.2 Beet sugar factories are for the most part located in rural areas characterised by low levels of industrial activity. They are often the economic backbone of the regions in which they are located, with few industrial alternatives existing. The EU sugar sector provides almost 28 000 direct jobs, which are mainly concentrated in the most competitive sugar beet-producing regions. These jobs tend to be relatively high-skilled, and sugar industry workers enjoy higher remuneration than in most other agricultural sectors. In addition to direct employment, the economic activity generated by the industry provides for a further 150 000 indirect jobs, for example in transport, logistics and construction.

2.3 Only in very exceptional circumstances is it possible to restart sugar production once a sugar production facility has been closed down. This is because the construction of a sugar factory entails high capital costs, typically of several hundred million euros. In most cases, the closure of a single facility means the permanent loss of an essential industrial activity, resulting in the loss of hundreds of direct and indirect jobs. The search for alternative industrial employment can lead to rural migration and depopulation.

2.4 The situation is similar for growers. Sugar beet must be cultivated in 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. Where a beet sugar factory goes out of business, growers are deprived of an outlet for their sugar beet. Unless there is another factory within an economically viable distance, they are forced to switch to other crops. This has a substantial negative impact on the financial returns of the farmers concerned, many of whom will have made substantial investments in specific equipment such as for beet harvesting, which is not applicable to other crops. In addition, the sudden conversion to other crops by a large number of farmers can put considerable pressure on local agricultural markets.

2.5 Beet sugar production is environmentally sustainable. Sugar beet is always grown in rotation with other field crops. Crop rotation helps conserve soil fertility and reduce levels of soil-borne pathogens and pests and thus reduces the requirement for plant protection products. The development and dissemination of good practices is widespread in EU beet growing regions. The use of mulch and reduced tilling are encouraged within the sector to promote soil fertility and reduce erosion. In factories, energy use is minimised by the use of employing combined heat and power systems (CHP) and through heat recovery and water conservation.

3. The competitive position of the EU beet sugar industry

3.1 The EU sugar sector has invested heavily in technical improvements and cost-reductions, as well as in human capital, research, education and training. Over the last 26 years, the average EU cost of production for quota sugar has increased by only 0.4 per cent per annum, compared to an inflation rate of 2.2 per cent per annum. This translates into a continuous reduction of costs relative to inflation over two decades[1]. These gains have contributed to the increasing the competitiveness of the EU's sugar-using food and drink industry.

3.1.1 Sugar beet yields have increased substantially over past years thanks to a combination of technical and seed variety improvements, driven by cooperation between the industry, growers, research and development and the seed trade. Average beet sugar yields (tonnes sugar/ha) have increased by 2.4 per cent per annum for the last 26 years, and this trend is projected to continue into the post-2017 period. EU sugar yields per hectare are now higher than those in Australia or Brazil's Centre-South region, which are counted among the most competitive regions in the world. Four of the world's top ten biggest sugar-producing companies are based in the EU[2].

1 Figures taken from the CEFS annual Manufacturing Costs survey, which is undertaken on a yearly basis to calculate an average cost of production for EU quota beet sugar.

2 F.O. Licht's International Sugar and Sweetener Report. 18 May 2017. Vol. 149, No. 14. These four sugar-producing companies are: Südzucker, Tereos, ABSugar, and Nordzucker.

3.2 These competitive gains are due in part to a substantial restructuring of the sector that took place between 2006 and 2009. Following the reform in 2006, the EU beet sugar industry closed almost half its factories with the loss of 4.5 million tonnes of production capacity, over 24 000 direct jobs and 165 000 farm suppliers[3]. This transformation has made the EU beet sugar sector more economically sustainable, albeit at a high social cost. Since the 2008/2009 marketing year, employment has remained relatively stable, as has the number of factories.

3.3 Strong relations between sugar processors and employees have been sustained by longstanding social dialogue at European and national level. The EU Sugar Sector Social Dialogue has existed since 1968, and it has been key to ensuring a socially-adequate transition in difficult times, such as those following the 2006 EU sugar policy reform. By contributing to a sense of co-ownership, the Social Dialogue contributes to the industry's competitiveness.

3.4 Further gains in competitiveness will be pursued from 2017, in particular as manufacturers may seek to reduce fixed costs by operating factories at full capacity. This could imply longer beet processing campaigns and therefore higher risks for both processors and growers, due to uncertainties related to the harvest and storage of beet in winter time.

3.5 To avoid wastage, EU sugar processors use the whole of the sugar beet to produce a range of products in addition to sugar, for example: the stones and soil from the cleaned beet are sold to the construction industry; the fibrous material from the beet ("beet pulp") and molasses are extracted and processed for use in animal feed; and molasses and other syrups deriving from sugar production, can be used to produce renewable ethanol. Increasingly, sugar producers are also diversifying into the production of ingredients for bio-based products for industries such as plastics, textiles, pharmaceuticals and chemicals.

4. Relations within the sugar supply chain

4.1 Beet sugar processors and sugar beet farmers are mutually dependent. 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 geographical proximity to the sugar factory they supply. In addition, many of the largest sugar-producing companies are cooperatives, which enables the supplying farmers to have a direct stake in the industry.

4.1.1 The interdependence of processors and farmers necessitates a specific contractual framework to balance the rights and obligations between the two partners. Contractual relations between sugar beet farmers and sugar processors after 2017 are set out in Article 125 and Annex X of the Single CMO regulation. These rules have recently been supplemented by a Delegated Regulation, which allows value-sharing clauses to continue to be included in beet contracts on a voluntary basis[4]. The majority of sugar industries have recently agreed beet contracts for

3 CEFS Statistics.

4 Commission Delegated Regulation (EU) 2016/1166 of 17 May 2016 amending Annex X to Regulation (EU) No 1308/2013 of the European Parliament and of the Council as regards purchase terms for beet in the sugar sector as from 1 October 2017.

2017/18 and beyond that include some form of linkage between sugar beet prices and sugar market prices.

4.1.2 Beet sugar manufacturers have long been obliged to report monthly on 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 and published on an annual basis. This degree of market transparency that characterises the sugar processing sector is not matched by transparency further down the supply chain and by isoglucose producers. Evidence suggests that price transmission along the sugar supply chain is low[5], and there may be merit in exploring the feasibility of greater transparency for the users of EU beet sugar.

4.2 Cane sugar refiners are also active on the EU sugar market. Cane sugar refiners do not transform sugar beet, but are dependent on imports of raw cane sugar for refining. The EU allows unlimited duty-free imports of sugar from the least-developed countries under the "Everything But Arms" (EBA) Scheme and from African, Caribbean and Pacific countries that have concluded an Economic Partnership Agreement (EPA) with the EU. EU raw cane sugar refiners benefit from duty-free market access concessions under bilateral agreements with Central America, Colombia, Peru, Ecuador and South Africa that currently total 420 000 tonnes per annum. Annual availability of raw sugar for refining under the reduced-duty CXL quota – which is divided between Brazil, Australia, Cuba and all third countries ("Erga Omnes") – totals over 700 000 tonnes and is set to rise to almost 800 000 tonnes in 2017/18. In both recently-completed and ongoing free trade negotiations the EU is offering additional access for third countries to the EU sugar market.

5. The end of production quotas

5.1 Since 1968, EU sugar and isoglucose production for food use has been limited by production quotas. Production quotas will cease to exist on 1 October 2017, i.e. the start of the 2017/2018 EU sugar marketing year. From then on, EU sugar and isoglucose producers will be free to produce sugar and isoglucose for food use without limits. The existing export ceiling will also cease to exist[6]. As a consequence, operators in the EU sugar sector will be free to export sugar without limits from 1 October 2017.

5.2 Sugar production is expected to rise in 2017/18. This increase in production is expected to be structural. In addition, isoglucose is expected to occupy a larger share of the EU sweeteners market, with isoglucose manufacturers aiming to produce 2-3 million tonnes "over time", much of which may be used for the production of soft drinks[7]. By way of comparison, EU sugar consumption is in slight decline.

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5 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.

6 Cf. DS266. The EU may currently export c. 1.35 million tonnes of sugar per marketing year, i.e. 10 per cent of quota sugar production.

7 This is the figure given by the starch industry association StarchEurope.

5.3 Increased domestic sugar production and an enlarged market share for isoglucose could weigh on EU white sugar prices in the post-quota period. The European Commission's Medium-term Prospects for Agricultural Markets 2016-2026 suggests that EU white sugar prices will be below the reference threshold of 404 EUR/tonne for much of the post-quota period, i.e. below the average costs of sugar production and sugar beet cultivation.

5.3.1 In 2015, EU white sugar prices reached their lowest level since the price reporting system began in 2006[8]. This situation had a severe effect on the reported financial results of EU sugar producers, many of whom were unable to turn a profit in the fiscal year 2015/16. Sugar producers in Italy have come under particular pressure, with one producer opting not to produce for the 2015/16 marketing year. Greece's sole sugar producer is also in serious difficulty.

5.4 From 1 October 2017, EU sugar producers will be free to export without limits. This may be an opportunity to increase revenues to compensate for lower sugar prices within the EU. World sugar consumption is projected to grow at a rate of 1.5-2 per cent per annum (c. 2-3 million tonnes per year), so there should be sufficient demand for an increase in the EU's sugar exports.

5.4.1 Nevertheless, an increase in EU sugar exports is dependent on sufficient access to third country markets. The European Commission should work to open the sugar markets of net sugar importers in its free trade negotiations, both through the reduction/elimination of customs duties and the opening of tariff-rate quotas. It should continue to eliminate duties on exports of EU high sugar-containing products, and back strong rules of origin for such products to ensure that EU sugar producers benefit from increased exports.

5.4.2 EU sugar exports are sometimes challenged by the imposition of trade defence instruments by third countries. The European Commission should do everything possible to fight such measures once the sector becomes deregulated from 1 October 2017 and the sector must offer the necessary support to any agreed proceedings.

8 In February and June 2015 prices bottomed out at 414 EUR/tonne.

5.5 In both recently-completed and ongoing free trade negotiations, the EU is offering access for third countries to the EU sugar market. Market opening is exposing EU white sugar prices to downward pressure and increasing volatility. The current world market is a residual dump market subject to high volatility that frequently trades below the average production costs of even the most efficient global industries. This is due in large part to the trade-distorting support measures of some of the major sugar producers and exporters, such as Brazil and Thailand. The result is that the EU beet sugar industry is not competing on a level playing field with sugar producers in third countries. The Commission must treat sugar as sensitive in its free trade negotiations by maintaining the EU's duties on sugar. The ongoing negotiations with Mercosur present a grave risk to the sector, given that Brazil is the dominant world producer and exporter. The Commission must be prepared to challenge the major sugar subsidisers at the WTO dispute settlement body and during trade negotiations.

Brussels, 5 July 2017

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The president of the European Economic and Social Committee

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