CEFS POSITION ON THE EU SUGAR REGIME AFTER 2014/15

June 2011

INTRODUCTION

Industry response to the 2006 reform

In 2006, the European Common Market Organisation (CMO) for sugar was radically reformed. The overall objective was to develop a sustainable market balance by removing inefficient production, provide import opportunities for developing countries, and improve efficiency and to become more market orientated.

The European sugar industry responded positively to this challenge by rationalising and improving efficiency. An ambitious restructuring scheme was introduced, which reduced European quota production by 5.8 million tonnes, and resulting in an overall closure of 60% of EU factories between 2000 and 2008. Within 3 years, the EU went from being the world's second largest exporter to one of its biggest importers.

The radical nature of the reforms included a 4 year transition period ending in 2010, which was necessary to enable the European industry, importers, and the market to adapt to the new situation.

In the context of the present CMO, the sector has been able to improve its competitiveness.

Recent developments

Since 2006, global developments have fundamentally changed the supply and demand dynamic in the sugar market. World sugar prices and costs of production outside the EU have soared, and as a consequence importing to the EU has become much less dependable, and at times economically unattractive. Even so, EU sugar industries have throughout this evolution fulfilled the CMO reform's main goal of delivering secure sugar supplies at reduced prices to European customers. Imports have proved to be less reliable.

With increasing emphasis on food security and a desire to avoid amplification of the volatility of world sugar prices into the EU market, increased focus is now being placed on domestic production, especially when import deficiencies occur. In 2011 special measures had to be introduced which allowed European producers to release non-quota sugar in stock to the EU food market, as recommended by the European Court of Auditors' Report 6/2010 on the sugar reform, to fulfil European market requirements.

The Doha Development Round appears to have stalled implying that more regional and bilateral trade agreements will be concluded. In addition, if there is no WTO agreement, the peace clause should no longer apply leading to possible complaints by WTO members.

CEFS CURRENT POSITION ON SUGAR REGIME RESULTING FROM THE 2006 REFORM

Sugar now forms part of the single CMO, and therefore the arrangements for the period after 2015 will be incorporated into the current CAP reform negotiations. CEFS wishes to take an active and positive role in the negotiations, as it did in 2005, to help the European institutions reach a constructive and balanced package of measures for the new sugar CMO.

In June 2010 CEFS published its first position on CAP and sugar CMO reform, in which it focussed on 5 priorities for the sugar sector[1]. These were:

- **Imports policy.** The EU should pursue a responsible trade and imports policy, which is consistent with the outcome of the 2006 reform and recognises the substantial investments made by the European industry to improve efficiency and rationalise. It should also recognise the existing trade preferences granted in particular to the ACP and LDC developing countries which supply the EU. With regards to other imports, the EU should pursue a responsible imports policy for sugar including a sustainable fixed level of imports tariffs and adequate protection against extreme volatility.

- **EU supply management.** For sugar and isoglucose, an effective supply management system is needed in the new CMO, including an appropriate 'safety net' to protect the EU from increasingly volatile global market conditions and to enable the EU to achieve its goals for food security and sustainability. The relevance of this recommendation has been underlined by recent market developments.

(1) Please see CEFS contribution to the public debate on the CAP post-2013 of January 2011

- **Freedom to export.** The EU should have the same freedom to export as any other trading region in the world. The G 20 and other international bodies recently called for the elimination of export subsidies. If the EU would unilaterally decide as a contribution to follow that route, this would be decisive for sugar exports.

- **Beet supplies.** The relationship with growers is key for the sector, and it is important to maintain a legal framework to define the principles of the contractual partnership with growers. Within this framework, growers and processors should have the flexibility to agree detailed terms best suited to their local conditions.

- **CAP budget contribution.** The sugar CMO is now budget neutral. There is consequently no justification for maintaining the production charge, which does not apply in any other CAP sector. The production charge should be removed in the review of the EU financial perspectives for 2013-20.

CEFS UPDATED POSITION

CEFS maintains these critical priorities for the future and, in addition, has expanded its position in the light of recent policy and market developments.

Throughout this process, CEFS recognises that the overall direction of CAP reform is to improve efficiency and competitiveness, while assuring food supplies for European consumers. It accepts that the process of change initiated by the 2006 reform needs to continue – albeit at a pace which the European industry and other stakeholders can respond to - starting with the current system.

Consequently, CEFS does not accept a complete liberalisation of the sector, including quota abolition in 2015.

CEFS supports a process of continuous improvement after 2015, in which the next CMO should be regarded as a 'transition period' towards the EU's long-term objectives of greater competitiveness.

In this context, CEFS would like to make the **following recommendations:**

EU supply management

Our starting point: *the EU should not put itself in a vulnerable position when it comes to food security and stability of supply. In this regard, the 2006 reform has weakened the EU position by turning the EU from a net exporter to net importer, i.e. a deficit market.*

It is well-established that the world sugar market is amongst the most volatile of all commodity markets. The last two years have clearly shown that extreme price volatility has created instability in the whole food chain, and demonstrated that market forces alone cannot ensure food security, stability of supply and sustainable production. This recent experience highlights that Europe's sugar supplies are potentially threatened by:

- Growth in world sugar consumption, which is averaging about 3 million tonnes per year. This means that over the next decade, global supplies will have to increase by 30 million tonnes – equivalent to almost doubling this year's total global sugar exports – to keep pace with demand.

- Growth in world ethanol consumption, driven by global initiatives to improve fuel security and increase renewable energy supplies. This means that increasing quantities of sugar, especially in Brazil, are being diverted towards ethanol production.

- Increases in oil prices, freight and logistics costs, which are having the effect of increasing costs of production everywhere in the world.

- Growth in demand in developing countries due to improvements in their standard of living and increased sugar consumption. These factors are progressively strengthening regional markets, making exports to the EU relatively less attractive.

- Dependence on a small number of global suppliers. Just 3 countries (Brazil, Thailand and Australia) supply almost all the world's sugar exports, with Brazil alone accounting for almost 60%. This is an extremely risky situation where crop failures in any of these countries, especially Brazil, would have devastating effects for European supplies. It also calls into question whether these 3 countries have the capacity to increase their exports by 30 million tonnes in the next 10 years.

- Foreign exchange developments, with the appreciation of the Brazilian Real contributing to higher world sugar prices, given Brazil's dominance on the world market.

To counteract the volatility and inevitable supply risks associated with the world sugar market, all main global sugar producing countries have introduced measures to protect their consumers and to safeguard the investments made in their national industries, from unacceptable swings in supply and demand. In many cases these measures include an assumed level of self-sufficiency to reduce dependence on volatile external markets.

CEFS therefore recommends that the next sugar CMO should include instruments to combat extreme volatility and to guarantee stable market supplies – in a more predictable and flexible way than is the case now.

'Safety net' to provide additional supplies

The Commission has taken several measures in the last 2 years to balance the EU market on an ad hoc and 'exceptional' basis.

To provide legal certainty, predictability and to encourage long-term competitiveness, some of these solutions should be consolidated into the Single CMO. CEFS requests the inclusion on a permanent basis in the EU legislation of the release of out-of-quota sugar (with the suspension of the surplus levy of 500 €/t), with a clear trigger mechanism in case of undersupply on the EU market, as CEFS considers that **EU domestic production should be the first recourse supply in such a situation.** This would reinforce EU security of supply for the benefit of consumers, by enabling European sugar producers to release out-of-quota sugar onto the EU food market if and when needed.

For this to work effectively, the Commission would need to announce decisions in such a way as to facilitate industries' planning processes. It will also be important to define trigger points carefully to avoid ad hoc conversion decisions or stockpiles of industrial sugar being built up.

Given that domestic production currently accounts for 85% of consumption, the 'safety net' would therefore guarantee supplies for consumers, in such a way that up to 90% of European sugar consumption requirements could be supplied from domestic production.

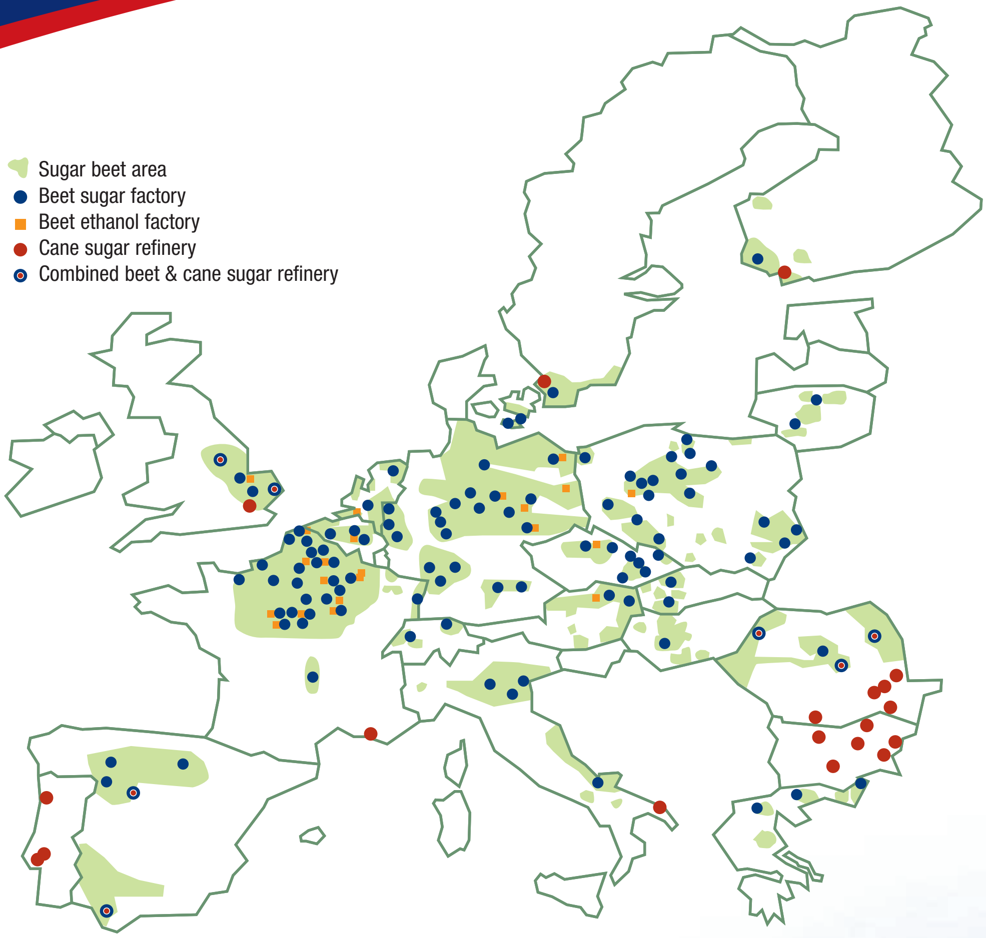
Improving the administrative management

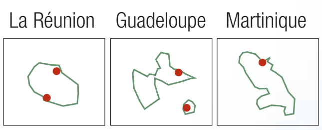
The experience of the last 2 years of management of the sugar market by the Commission has shown that the timing for decisions needs to be improved and reviewed.

In-year quota cuts ('withdrawals')

During times of surplus supply, current regulations (Article 52 of Regulation 1234/2007) allow the Commission to introduce in-year temporary quota cuts, or withdrawals. These were successfully used in 2006 and 2007. It would make sense to have a similar tool in the new CMO, to act as a safeguard during times of oversupply, providing this was only used after consultation with the industry, and as an exceptional measure.

CEFS, founded in 1953, represents all European beet sugar manufacturers and cane sugar refiners, covering sugar production in 20 EU countries (Austria, Bulgaria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, Portugal, Romania, the Netherlands, Poland, Slovakia, Spain, Sweden and the United Kingdom) plus Switzerland.





CEFS
Comité Européen
des Fabricants de Sucre

Avenue de Tervuren 182
B-1150 Brussels

Tel: + 32 (0) 2 762 07 60
Fax: + 32 (0) 2 771 00 26

cefs@cefs.org
www.cefs.org