EUROPEAN SUGAR MANUFACTURERS[1] (CEFS) CONTRIBUTION ON THE COMMON AGRICULTURE POLICY (CAP) POST 2013

January 2011

INTRODUCTION

CEFS would like to share its views on the CAP post 2013 in the context of the discussions on the future of European agriculture, in order to contribute to the public debate.

EU sugar manufacturers form a first processing industry in the food supply chain with close and strong links with the farming sector. They are therefore part of European agriculture. The principle activity of CEFS members is to purchase sugar beet from EU growers from which they extract sugar. Many also import raw cane sugar for refining. European sugar manufacturers produce around 13 million tonnes of sugar each year –roughly 85% of the EU's needs of 16 million tonnes. The balance, is supplied from imports. Roughly three-quarters of total sugar output is sold to "second manufacturers" to make finished food products; the remainder being sold direct to retailers. In addition to sugar, a wide range of other products and ingredients are also produced such as feeding stuffs and molasses, as well as highly efficient combined heat and power (CHP) electricity, renewable energy and renewable fuels like bioethanol. Sugar is a low price ingredient in Europe - the average cost of the sugar supplied "ex factory" is equivalent to less than 15 Euros per person per year.

LOOKING AHEAD FOR A SUSTAINABLE FUTURE

- Being one of the first 'common' policies of the European Union, the CAP is complex and highly visible to public scrutiny. It has been gradually adapted over time. Past reforms of the CAP were made in a context of abundant supply and low world commodity prices. This situation has now changed. New challenges ahead include climate change, sustainability, resource efficiency and food security. These have to be seen in the context of a much more difficult economic and financial environment, the recent financial and commodity crises, increasing energy prices and higher price volatility. It is essential for the EU to set its priorities and objectives for the future CAP (2014-2020) taking this new situation into account.
- CEFS welcomes the fact that the European Parliament now has a key role to play as co-legislator, along with the Council and Commission, regarding the future CAP and in particular trade agreements. CEFS encourages EU Institutions to be consistent when deciding future EU legislation, and to act in a timely manner. Member States also have a key role to play in the implementation process to avoid undermining the collective goals agreed by the EU.
- Ensuring consistency between the objectives of the various EU policies, in particular regarding internal and external matters, is crucial. This is particularly relevant for the relationship between the CAP and the EU's trade and development agendas. CEFS members have responsibly played their part in contributing to a new balance on the EU market taking into account the EU's development agenda. ACP and LDC (now EPA-EBA) countries are presently enjoying the benefits of these changes in the form of duty-free access and liberalised refining arrangements. Their preferential access to the EU sugar market should not be undermined or eroded by new concessions to third countries through bilateral trade agreements or at WTO level. Such concessions would also lead to further cuts in EU sugar production.
- CEFS is of the opinion that a Common Agriculture Policy is needed because food is a strategic, vulnerable and vital production for mankind. It is vulnerable because it depends on unpredictable climatic conditions, made even more uncertain by the advent of climate change. World population, and with it demand for food, is expected to increase substantially by 2050. Water reserves and land availability are predicted to be in increasingly short supply. The recent commodity crisis and increasing concern about food security have clearly shown that responsible regulatory controls have to form part of a sustainable global balance. Market forces alone cannot ensure that the world's goals for food security, stability of supply and sustainable production are achieved.

(1) CEFS: Comité Européen des Fabricants de Sucre. CEFS members are sugar companies or national organisations of sugar manufacturers.

- CEFS believes that consistent rules implemented through a common policy are also needed to avoid internal market distortions within the EU – a single market of over 500 million citizens. The CAP should enable sugar producers to play an active part not only in the EU domestic market but also at world level.
- For CEFS, stability of supply at affordable prices remains a key priority and objective for the CAP. The initial objectives of the CAP included this priority, which has been reconfirmed by the new Lisbon Treaty. For the sugar sector, this implies that EU consumers' demand should be largely secured by a competitive domestic sugar industry. The importance of this objective has been underlined by the recent surge in world sugar prices. At a time when global markets have become excessively volatile and highly priced, and imports increasingly unreliable, the European sugar industry has again proved to be a highly dependable supplier for the domestic market. In the event that world supplies remain constrained, CEFS' members stand ready to offer additional quantities to the European market if needed.
- The CAP should encourage EU sugar producers to meet the EU's high social, environmental[2] and processing standards, including traceability, while at the same time promoting an internationally competitive industry. Respecting and implementing these strict standards has cost implications for the EU. A level playing field is therefore needed to ensure that EU manufacturers are not penalised compared to their competitors worldwide. The CAP, and associated trade policies, should ensure that the agreed environmental and social standards are implemented consistently for all agricultural supplies – regardless of their origin.
- CEFS is of the opinion that a properly funded CAP should be decided for the next decade to set a stable and predictable framework needed by the sugar manufacturers and the beet growers.

THE SUGAR CMO AS PART OF THE CAP

The EU sugar CMO has just been substantially reformed to bring it in line with the reformed CAP. The new CMO started in 2006 and its legal framework has been set until 2015. Key elements of the reform included a 36% cut in reference prices for EU and imported sugar, a 40% cut in the beet price, and a 30%-40% reduction in European output. This has resulted in a loss of value for the sector of 3-4 Billion Euros per year because of the reduction in sugar price, plus a further 2-2.5 Billion Euros per year caused by the cuts in quota. An ambitious restructuring scheme was introduced to encourage the removal of quota and capacity in less efficient industries. The Commission has recently announced the success of this scheme in eliminating 5.8 million tonnes of EU quota – 97% of the original target. Many other aspects of the original sugar CMO were also modernised.

The European sugar industry responded to this reform by introducing a major programme of rationalisation and efficiency improvements. The reform outcome is acknowledged by the Commission to have been a success, and to have fulfilled the original objectives set for it. This has transformed the EU from the world's second largest sugar exporter to its second largest importer and has resulted in a much more efficient and competitive domestic industry. A total of 147 factories (60% of the total) have been closed during the last decade with the loss of over half its employees. An estimated 140,000 growers (45%) have left the industry since 2004/05. Five Member States have completely closed their industries, with a further 6 losing over 40% of their production. This rationalisation has driven efficiency improvements throughout the sector. Uncompetitive capacity has been closed, remaining units expanded and operations extended both in terms of longer crop processing seasons and supplementary cane refining, thereby improving asset utilisation. Substantial investments have also been made to improve energy efficiency and diversify operations. At the same time, price cuts, quota reduction and financing the restructuring fund have put financial pressure on all sugar producers. Because of the economic crisis and reduced availability of credit, these consequences of the reform have been made even more challenging for a sector which is highly capital intensive - both for its investment needs and working capital.

As a result of the reform, a new structural balance between domestic sugar production and preferential imports has been reached. Now, about 85 % of total EU sugar consumption is covered by domestic beet sugar production from 18 Member States. Based on this balance, the aims of the future CAP will be promoted in particular to provide the European consumer a stable supply of sugar at reasonable prices. A competitive beet sugar industry - generated by the reform - is more than ever able and willing to play its role in supplying the market on a sustainable and responsible basis. However, this has to be secured and accompanied by a reliable and predictable regulatory framework, in which sugar production, as a capital intensive industry, can operate in the long term.

To be sustainable and competitive the EU sugar sector needs stability, predictability and legal certainty. Regarding

(2) For further information on the EU Beet and sugar sector and environmental sustainability, please consult CIBE-CEFS leaflet and brochure on CEFS web site.

stability, it is not reasonable that European sugar producers should be considered the “adjustment factor” to enable the EU to respond to fluctuating or increasing imports. Forcing European producers to reduce output at short notice damages efficiency, and would ultimately lead to further factory closures, with consequent social impacts in rural areas. Once closed, a factory cannot be reopened – the process is irreversible. Also, in contrast with other primary processing industries in particular the grain processors, it is not possible for EU sugar producers to predict with certainty how much sugar they will process in any given year because they collect, transport and process all the beets they receive from their growers. It is for this reason that the freedom to export is so important for the future.

CEFS believes that, following completion of the current sugar CMO restructuring process in 2011, a period of stability is needed to consolidate the sector. This will also be necessary to integrate the results of the WTO Doha Round, which will have fundamental implications for the EU sugar sector as a whole - whatever the final outcome.

In relation to a review of the single CMO with regards to sugar, **CEFS has identified 5 top priorities** to ensure a sustainable and competitive EU sugar sector beyond 2015:

- **Imports policy.** It is essential to include an imports management policy which enables the EU to achieve its objectives for food security and sustainability, as well as accommodating the sugar CMO reform outcome. The European sugar industry has made substantial long term investments to improve efficiency and to rationalise in response to the 2006 reform. It would be economically damaging to jeopardise these investments by exposing the industry to extreme world market volatility. In common with other trading blocs, the EU should pursue a responsible imports policy for sugar in the WTO negotiations, including a sustainable eventual level of import tariffs and adequate protection against extreme volatility.

- **EU supply management.** For many years, the European sugar sector has operated under a system of national quotas designed to manage production. The Commission has indicated it wishes to review the use of quotas in the new CAP. CEFS understands this, but believes that, for sugar and isoglucose, an appropriate supply management system is needed. A safety net should be introduced against increasingly unpredictable and volatile EU market conditions.

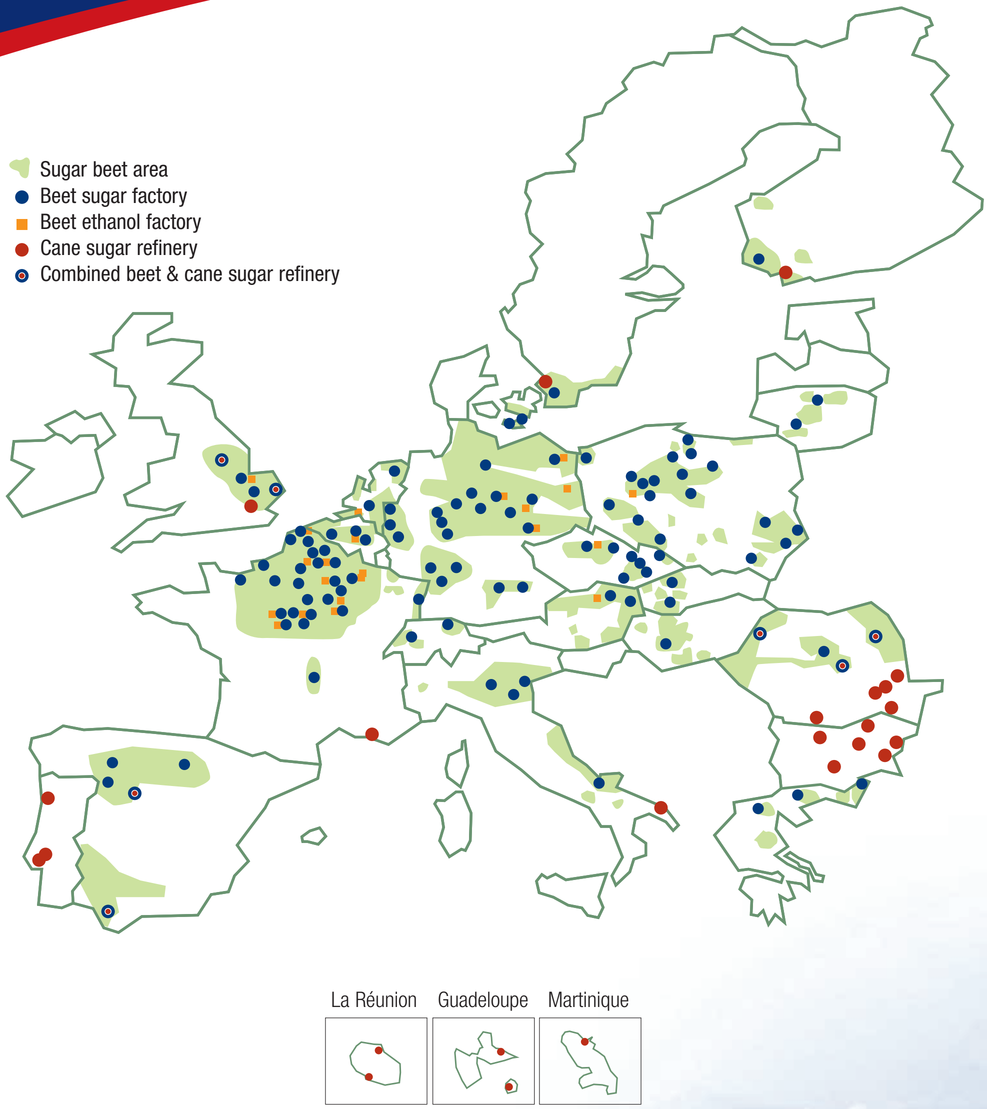
- **Freedom to export.** CEFS believes that, in the context of the future sugar CMO, the original conditions of the WTO Panel ruling, which have been used to limit sugar exports, have to be avoided. Therefore, CEFS urges the Commission to re-examine the 2005 Panel conditions, with the objective of lifting the WTO export limit. It is essential that the EU has the same freedom to export as any other trading region in the world.

- **EU sugar beet contracts.** The relationship with growers is key for the sector. Minimum beet price and contractual arrangements have traditionally been a part of the sugar CMO and specified in considerable detail in the regulations. CEFS believes that it is important to maintain a legal framework to define the principles of the contractual partnerships with growers. Given that the future CAP will focus on the broad principles rather than the details, CEFS believes that it would be appropriate for a future sugar CMO to reflect this by providing flexibility for beet growers and sugar manufacturers to agree contractual terms best suited to their local conditions.

- **CAP budget contribution.** CEFS fully recognises that budget and funding will be important issues for the EU in the CAP review. However, it should be noted that the beet sugar sector is unique in the CAP in having to bear a production charge despite the sugar CMO’s recent integration into the single CMO. Additionally, this charge is not levied on imports. Therefore, CEFS requests that the production charge is removed when the CAP financial perspectives are reviewed.

The next few years will show if the instruments included in the 2006 sugar CMO are appropriate to cope with the challenges ahead. Design of the new CMO post-2015 will be crucially dependent on this experience. **CEFS is willing to enter into a fair and positive dialogue with the EU institutions** to achieve this within the context of a modernised and renovated CAP.

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.



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