POSITION OF EUROPEAN SUGAR PRODUCERS ON THE REFORM OF THE EUROPEAN COMMON MARKET ORGANISATION (CMO) FOR SUGAR

March 2012

Why should the current EU Sugar CMO be extended until 2020?

1. To enable the European sugar sector to continue to optimise its competitiveness and efficiency

2. To counter the instability of the world sugar market, thus securing stable supply

3. To provide, according to EU international commitments, the Least Developed Countries (LDC) and ACP developing countries with more time to invest in their infrastructure

About the European Association of Sugar Producers (CEFS)

- CEFS represents the activities of **European sugar manufacturers and refiners** at the EU level of approximately 60 sugar companies.
- The sugar industry is a **European player:** beet sugar is produced in 18 Member States by 106 factories thereby supporting about 180,000 direct and indirect jobs and the activities of around 170,000 European farm businesses.
- Sugar is a **natural product**: an important dimension of CEFS' engagement at the EU level is to share its knowledge on sugar and its role in a balanced diet as part of a healthy, active lifestyle.
- Sugar is a **unique agricultural commodity**: European produced sugar guarantees secure sugar supplies at reasonable prices for European consumers.

CEFS calls for the extension of the current EU Sugar CMO until 2020

While CEFS recognises that quotas will end in the long term, CEFS supports the continuation of a stable CMO, including a quota system, until 2020 contrary to 2015 as proposed by the European Commission.

Why should the current EU Sugar CMO be extended until 2020?

1 To enable the European sugar sector to continue to optimise its competitiveness and efficiency

The specificities of sugar production and global market instability require the continuation of a stable CMO, including a quota system, until 2020.

The current European Sugar CMO provides a stable framework for business planning and investment. It also supports the long-term supply relationship with European beet growers, 180,000 direct and indirect industry jobs and 106 factories in 18 Member States, and the activities of around 170,000 European farm businesses. This system allows for the effective functioning of the European beet and sugar supply chains and delivers a stable and reliable supply of sugar to users and consumers in the EU market. In addition, the sector is a significant actor of the European bio-based economy with a particular impact in the development of rural areas and therefore a key contributor for the EU to reach the ambitious goals of its 2020 Strategy to become a smart, sustainable and inclusive economy.

The European Commission's view that flexible market management measures, including safety nets, are sufficient mechanisms to address the global volatility of sugar prices and supplies is not realistic. Flexible mechanisms are effective crisis management tools to ensure sufficient sugar supply on the EU market to counter cyclical shortages. However, in the current context of structural instability, they are not sufficient. As a result, ex-post flexible instruments of market intervention should be complemented by the proactive tools of market planning which are provided by the current EU Sugar CMO.

Since the 2006 reform of the Sugar CMO, the EU sugar industry has actively engaged and invested to further improve its competitiveness and efficiency, and will continue to do so during the 2015-2020 period.

In response to the 2006 reform, the European sugar industry has introduced a variety of radical measures to improve its competitiveness and efficiency. These include:

- Massive rationalisation of the industry, involving the closure of 149 factories (60% of the total) since 2000.
- Combined improvements in the field and in sugar factories resulting in 11% more sugar being obtained from one hectare of land[1].
- More than 20% increase in asset utilisation ('campaign length').

Development of alternative outlets for sugar beet processing related to the production of bio-based products such as bio-ethanol, bio-gas, bio-plastics and green-chemistry (e.g. lactic and polylactic acids) representing approximately 5 to 10% of the total sugar beet currently processed in the EU.

An additional five years will enable the European sugar industry to continue this improvement process and to capitalise on long term infrastructure investments.

The continuation of a stable sugar CMO until 2020 will intensify the process of efficiency improvement and transformation which accelerated with the reform of the Sugar CMO in 2006. This will provide an adequate timeframe and a stable environment for the sugar industry to further invest to improve its competitiveness by increasing yields and reducing processing costs. Significant investments in medium-term research projects (8-10 years) are ongoing with the aim to develop the agricultural productivity and yields of EU sugar beet even further but the full benefits of those research programmes will be only felt around 2020[2]. Security against the volatile world market and subsequent stable domestic supply are the motivation and reason why all sugar industries around the world are supported by domestic market measures[3]. This is also the reason why CEFS is against the liberalisation of the EU domestic market.

(1) Data for 2009/10 compared to the previous 5-year average.

(2) For example, the 8–year French project 'AKER', launched in 2011 with an initial budget of 21Mio €, aims to 'increase sugar yields by 30% in 2020' thus putting the industry in a position to compete with global sugar exporters like Brazil by 2020. A similar project (Gabi-Till) also exists in Germany.

(3) See LMC International analysis for CEFS on «Support measures around the world» (November 2011)

2 To counter the instability of the world sugar market, thus securing stable supply

Exceptionnally volatile world markets have demonstrated the need for greater reliance on EU-based production to act as a buffer and stabilise the EU sugar market.

The world sugar market is now characterised by extreme instability in prices and supply. Sugar is one of the most volatile soft commodities, due to a combination of: consistent increases in global sugar consumption[4]; volatile and in the long term increasing oil prices; dependence on a small number of sugar producing countries; currency fluctuations; and financial speculation.

The EU Sugar CMO address quantity and price volatility through a combination of the sugar beet contractual framework, which ensures value is passed to beet growers, and limits on the impact of cereal-based substitutes (e.g. isoglucose, considering the prices for corn and wheat, the main input for the production of isoglucose, are even more volatile than sugar prices).

Thus, the European beet sugar production is reliable, close to customers and highly sustainable and is consequently the most appropriate solution to address supply shortages. This reliability was demonstrated in the years 2010/11 and 2011/12 when world market prices reached a 30-year-peak and exceeded EU sugar prices. This resulted in European sugar imports, which normally account for 15% of total demand, becoming much less attractive with consequent shortages of supply. In contrast the European sugar industry was able to respond quickly to the Commission's request for additional sugar supplies in both years by releasing out-of-quota sugar.

European sugar prices are currently lower than sugar prices in many other global sugar producing countries which further confirms that there is no established link between the European Sugar CMO and high sugar prices.

Since the 2006 reform of the Sugar CMO, the EU has been transformed from being the world's second largest sugar exporter to one of its largest importers. However, the volatility of the world sugar market shows that a system which is increasingly dependent on imports is not an appropriate or cost-effective solution for sugar supply when world sugar prices are higher than the domestic EU sugar price.

(4) World sugar production is increasing by 30 million tonnes every decade, as a result of growing population and increased standards of living in developing countries.

3 To provide, according to EU international commitments, Least Developed Countries (LDC) and ACP developing countries with more time to invest in their infrastructure

The attractiveness of preferential access offered by the EU to Least Developed Countries (LDCs) and African, Caribbean and Pacific developing countries (ACP) will be reduced without a stable EU Sugar CMO.

In 2001 the EU offered duty free, quota-free access to LDCs as a way of promoting trade and standards of living in the world's poorest countries. This unrestricted access was introduced in 2009.

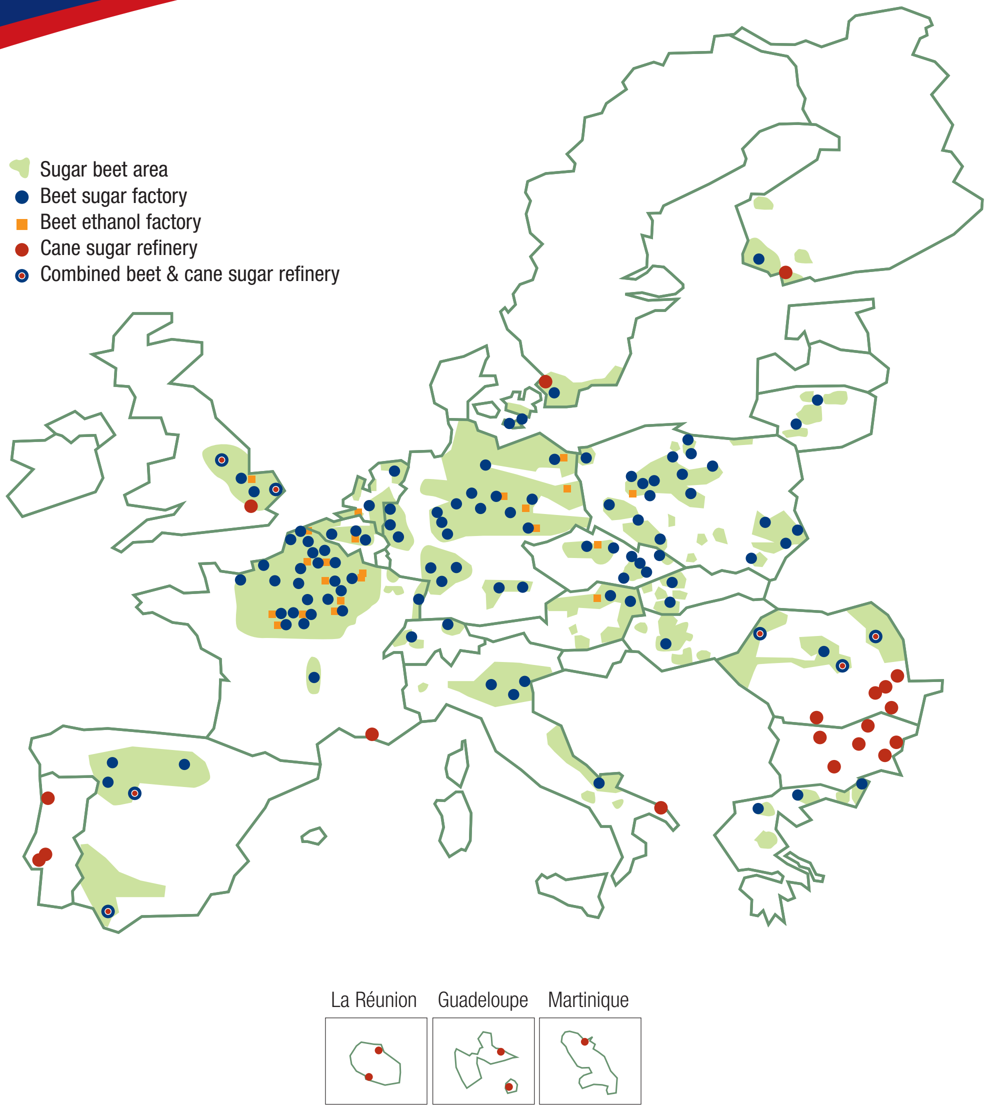
From the same date, unrestricted access was also introduced for ACP developing countries as part of the Economic Partnership Agreements (EPAs).

These preferential access arrangements are dependent on the EU sugar market remaining stable and sufficiently attractive to enable sugar producing developing countries to export to the EU. Abolition of the Sugar CMO in 2015 would provide insufficient time to invest further and improve the competitiveness of these countries. Continuation of the sugar CMO, including a quota system until 2020, would allow the EU to remain the leader in development policies and support developing countries.

For more information, please contact:

Marie-Christine RIBERA
General- Director of CEFS
+32 2 762 07 60
mariechristine.ribera@cefs.org

CEFS, founded in 1953, represents 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