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Position Paper

Why is the EU beet sugar sector opposed to the EU-Mercosur agreement and its new texts?

CIBE (the International Confederation of European Beet Growers) **and CEFS (the European Association of Sugar Manufacturers)** would like to reiterate their opposition to the EU-Mercosur agreement concluded in early December 2024. **CIBE and CEFS' analysis of the new text agreed upon is clear: it does not safeguard the environmental sustainability and put at risk the EU's sugar beet sector**.

The EU beet sugar sector sustains the livelihoods of over 100,000 growers in rural areas across the EU supplying 88 sugar beet processing plants located in rural areas. It plays a crucial role in ensuring Europe's food security and contributes to the Union's transition towards a greener, more efficient, and sustainable future.

The differential in terms of costs of production between Brazil and the EU has grown steadily in recent years, mainly because of:

- **the difference in structure of production**: family farms in the EU versus agro-holdings in Brazil (see table);
- **the huge development of sugarcane-based ethanol in Brazil, which has been supported by successive Brazilian governments since the 1970s** and the latest RenovaBio programme. A study has put the value to the Brazilian cane industry from ethanol cross-subsidies and other programs at $2.5 billion per year.[1] Brazil will further increase its advantage as far as sugarcane-based ethanol is concerned because most of the country's ethanol plants are already certified to produce Sustainable Aviation Fuels, the global market of which is expected to be multiplied by 15 by 2030. The EU has excluded in 2023 (RED III) its own biofuels from food and feed crops from its SAF mandate;
- the **decrease in EU productivity** due to the EU "Green Deal" and notably the decrease in sugar yield per hectare due to the constant loss of tools to protect the beet crop effectively against harmful organisms;

[1] Patrick Chatenay, ProSunergy Ltd, "Government Support and the Brazilian Sugar Industry," Canterbury, England, April 2013. https://sugaralliance.org/project/government-support-and-the-brazilian-sugar-industry

- A growing energy cost disparity unfavourable to the EU, coupled with rising costs for the EU beet sugar industry due to the revision of the Emission Trading Scheme and the pursuit of climate neutrality; The significant **devaluation of Brazilian currency**: minus 47% against the Euros between 2017 and 2024.

EU vs Brazilian sugar sectors

	EU Sugar beet	BRAZIL Sugar cane
Type of cultivation	Crop rotation	Monoculture
Area harvested in million ha	1.4	8.7
Area growth 2005/06-2016/17 **Area growth 2017/18 – 2022/23**	- 25 % **- 13%**	+ 56 % **stable**
% of beet/cane supply from independent growers	~100 %	~30 %
Average area per grower	15 ha	150 ha to 1500 ha in expansion zones (independent growers) Several tens of thousands of hectares for areas managed by sugar cane plants
Number of plants	88	more than 400
Production growth 2005/06-2016/17 **Production growth 2017/18-2022/23**	-20% **- 24%**	+161% (+344% in Center South) **+ 7%**
Exports in Mtrv 2016/17 **Exports in Mtrv 2022/23**	1.4 Mt **0.8 Mt**	29 Mt – World leader **33 Mt – World leader**
Genetically Modified Plant	No GM sugar beet in the EU	World leader in producing genetically modified (GM) sugarcane varieties. At least 6 GM sugar cane events are authorised for the cultivation of human & animal consumption in Brazil. Around 70,000 ha

In April 2024, as a result of the developments mentioned above, the analyst Czarnikow estimated that production costs in Europe are around 2.3 times higher than in Brazil.

The agreement will have a damaging impact on the EU's homegrown beet sugar sector for the following reasons:

1- These additional imports could lead to closure of sugar beet factories in the EU.

The 190,000 tonnes of access to the EU **sugar** market consist of two new import TRQs at zero duty:

- a TRQ at zero duty of 180,000 t granted to Brazil and
- a TRQ at zero duty of 10,000 tonnes granted to Paraguay

Admittedly, the current TRQ granted to Brazil will be deducted from the CXL concession at reduced duty. **However, contrary to what the Commission says, this means a new TRQ at zero duty for Brazil**.

For Brazil, the EU market access will shift from:

- 363,654 tonnes under the CXL TRQ (at a reduced duty of €98/t) plus 260,389 tonnes under the Erga Omnes TRQ (Brazil utilises a significant portion of the Erga Omnes TRQ, also at €98/t) in 2025/26, for a total of 624,043 tonnes of quota access at reduced duty

to:

- 180,000 tonnes at zero-duty under the new FTA plus 444,043 tonnes at reduced duty (363,654 tonnes under the CXL TRQ minus 180,000 tonnes reallocated to the FTA) plus 260,389 tonnes under the Erga Omnes TRQ, for a total of 624,043 tonnes of quota access, of which almost a third will now be zero-duty.

Separately, the EU imports an average of 300,000 tonnes at zero duty from Brazil under the Inward Processing Procedure (IPP), which is not part of any TRQ regime but a mechanism allowing duty-free imports under certain conditions with no quantitative limit. Therefore, Brazil's total access to the EU sugar market will reach approximately 500,000 tonnes at zero duty (including imports under IPP) and 444,000 tonnes at reduced duty, resulting in a total of around 950,000 tonnes.

The total access at zero duty for sugar under the EU's current FTAs (excluding Ukraine and other trade agreements under negotiation) will increase from 534,760 tonnes at zero duty (granted to *inter alia* Central America, South Africa, Ecuador, Colombia, Panama, Peru, , and Vietnam) in 2025/26 to more than 725,000 tonnes with the inclusion of Brazil and Paraguay. This figure will continue to grow as some countries (Central America, Ecuador, Colombia, Panama, and Peru) benefit from automatic annual increases in their TRQs. When Ukraine's access to the EU market is combined with the TRQs under the CXL concessions, the total market availability of these quantities exceeds 1.7 million tonnes, representing over 14% of EU consumption. On top of these TRQs, the unlimited duty-free, quota-free access granted to ACP countries and Least Developed Countries (LDCs) must also be taken into account.

The EU sugar market, in which sugar consumption is at best stagnating, has proven its extreme volatility: supply changes (even a small volume) have strong impacts on the EU sugar market and prices. This cumulation of TRQs and free access is no longer sustainable, unless the EU reduces its sugar production and beet acreage and closes factories.

For **ethanol**, concessions granted to Mercosur will be progressive over time (six equal annual stages):

- 450,000 t of ethanol (around 5.7 million hectolitres [Mhl]) duty-free, for exclusively industrial use ;
- 200,000 t of ethanol (around 2.5 Mhl) at duty reduced to a third of its value, for all uses, including fuel.

This concession of 8.2 Mhl at reduced or zero duty is huge: it represents around 15% of the EU production or the equivalent French sugar beet-based ethanol production (half of France's total production of agricultural alcohol, the other half coming from cereals).

2- These additional imports will not respect the EU's stringent environmental and social production standards and will expose European producers to unfair competition.

CIBE and CEFS have long warned the EU Commission that its sustainability provisions in all FTAs were inadequate without reliable enforcement and protection for EU producers. So far, cases of violation of these commitments by trade partners have not led to any consequences for those partners. Recent efforts have been made to strengthen the Trade and Sustainability chapter. Still, these enhancements are only included in newly concluded agreements, such as the EU-New Zealand FTA.

The question is if the provisions added in the new texts concluded between the EU and Mercosur countries at the EU's request (additional commitments concerning commitments to the Paris Agreement and commitments to combating deforestation) are sufficient to effectively prevent the anticipated health and environmental impacts arising from the implementation of the trade agreement in Mercosur countries. Force is to note that they are not.

- Is the Paris Agreement an essential part and a legally binding one? This was the objective, but the clause introduced in the new text applies only in cases where a party exits the Paris Agreement (parties "*shall remain in good faith*"). the wording of the clause is even weaker than that the one agreed in the agreements with the UK or New Zealand.

  The new text lacks concrete and enforceable measures with regard to the Paris Agreement.

- Human rights and labour rights: Essential clauses are introduced, but they were in some other already concluded FTAs such as with ACP/LDC countries or with Vietnam. Despite documented cases of violations of these rights, such clauses never led to changes, sanctions or suspension of the trade concessions.

  The new text lacks concrete and enforceable measures to prevent human and labour rights violations.

Sugar cane in Brazil still struggling with labour and social rights

A recent report by Repórter Brazil (December 2024[2]) highlighted that the situations reported in sugarcane fields linked to operations of some big companies include workers killed in fires, forced to sleep on the ground, unable to leave their jobs because of illegal debts imposed by their employers, and even hit by pesticides sprayed from airplanes.

- Is prevention of deforestation a binding clause? The clause introduced is not binding and there is no sanction mechanism envisaged (*"Each Party reaffirms its relevant international commitments and shall implement measures, in accordance with its national laws and regulations, to prevent further deforestation and enhance efforts to stabilize or increase forest cover from 2030. In this context, the Parties should not weaken the levels of protection afforded in their environmental law")*. The annex to the "Trade and Sustainable Development" chapter also contains provisions that could weaken the implementation of the EU regulation on deforestation (EUDR). The annex states that the EU commits to using the information provided by Mercosur national authorities to verify compliance with requirements, including traceability. Additionally, the agreement will be considered when assessing Mercosur countries' deforestation risk levels.

  The new text provides more space for dialogue and resolution of possible disputes, which benefits Mercosur countries. Nevertheless, it reinforces the requirement that any measure adhere to the WTO framework. As a result, it risks undermining the EUDR and lacks concrete and enforceable measures to prevent deforestation.

Deforestation in Brazil and sugar cane

In Brazil, one of the main concerns is the potential deforestation caused by the expansion of sugarcane areas. According to a study by Getulio Vargas Foundation, 92% of new sugarcane-based ethanol production comes from increases in area and only 8% from increases in yield. The study also estimates that direct deforestation accounts for 19% of the expansion into new areas. Even when expansion occurs on land previously occupied by other crops, there is concern that this process will encourage the migration of livestock and grain cultivation to new regions, including forest areas.

RenovaBio policy fails to consider indirect-land-use GHG emissions from biofuel crops and disregards the possibility of leading deforestation by pushing other crops to new and native lands, especially in the Cerrado and the Amazon .[3]

[2] https://reporterbrasil.org.br/?s=ethanol
[3] A. Alkimim, K.C. Clarke, Land use change and the carbon debt for sugarcane ethanol production in Brazil
Land Use Pol., 72 (2018), p. 65e73,

- Environment and biodiversity: **The new text simply copies the non-binding commitments of the UN Kunming-Montreal Protocol on biodiversity** (and on the reduction of hazardous pesticides) without anything regarding implementation and/or enforcement.

Plant protection products in Brazil in sugar cane cultivation
Of the 77 active substances in pesticides approved for use in sugar cane in Brazil, 43 are no longer approved or were never authorised in the EU, including for sugar beet cultivation [4].

As a result, **there is no binding sanction mechanism for violations of the sustainable development chapter's provisions on social rights, biodiversity, or deforestation**. The agreement does not align with the EU's recent commitments to integrating sustainable development and other environmental impacts into trade policy. The vague commitments on deforestation and the weak enforcement mechanisms for essential clauses raise concerns about the agreement's effectiveness.

- A new list of sustainable products from Mercosur with preferential access to the EU: It creates a list of sustainable products from Mercosur with preferential access to the EU. We can ask ourselves whether it was necessary to provide further support to Brazil biofuels industry for example and how this support will materialize?

  "With a view to creating jobs and fostering synergies between the levels of technological development and the natural resources existing in MERCOSUR and in the European Union, the Parties will collaborate in designing initiatives that boost sustainable and resilient interregional value chains. Such value chains should favor investment and industrial development in raw material-producing countries, with a view to increasing the value added locally and promoting job creation. Among others, the Parties will prioritize consideration of the joint development of sustainable interregional markets and value chains in strategic sectors consistent with relevant domestic rules and regulations; such sectors may include:
  (a) responsible mining, beneficiation and transformation of metals and minerals which are critical for the energy transition;
  (b) energy sources which play a crucial role in the energy transition, including LNG and renewable energy. This is most notably relevant for renewable and low-emission electricity generation as well as for those industrial sectors where GHG reduction is challenging;

J.S. Bergtold, M.M. Caldas, A.C. Sant'anna, G. Granco, V. Rickenbrode, Indirect land use change from ethanol production: the case of sugarcane expansion at the farm level on the Brazilian Cerrado, J Land Use Sci, 12 (2017), p. 442e456
J.B. de Ferreira, S. Filho, M. Horridge, Ethanol expansion and indirect land use change in Brazil, Land Use Pol., 36 (2014), p. 595e604
[4] EU and Brazil database on pesticides

(c) sustainable mobility and associated value chains, including lithium-ion batteries, battery recycling as well as recharging infrastructure, electromobility and electric automobile industrial production;
(d) sustainable biofuels, including ethanol and biodiesel, Sustainable Aviation Fuel and Renewable Fuels of Non-Biological Origin;
(e) hydrogen and its derivatives, to significantly contribute to the Sustainable Development Goals (SDGs).
[..]. In this sense, taking into account the asymmetries between both regions, and without prejudice to the rights of the EU, Mercosur countries may adopt promotion measures aimed at the development and growth of strategic manufacturing industries for sustainable transition, in line with the Agenda 2030 and its Sustainable Development Goals."

This new text brings uncertainty as regards possible future additional imports from Mercosur.

3- The "rebalancing mechanism": a new anti-mirror clause measure

The EU not only failed to fully achieve its objectives while Mercosur countries secured stronger protections for their industries, but the inclusion of a rebalancing mechanism in the dispute settlement text could also jeopardise future EU policies.

The Commission's interpretation of the "rebalancing mechanism" provided on the occasion of the TSCD meeting on 18 December 2024 contrasts with the interpretation of Mercosur/Brazil in their own written presentation. On the one hand, the Commission said that there was "nothing really new there", it was "in line with WTO" and "will not prevent the right of the EU to regulate". On the other hand, Brazil described it as an "unprecedented mechanism", an innovation that "provides comfort to [Mercosur] exporters in the event that internal EU measures negatively impact the ability to effectively take advantage of the benefits obtained through negotiation under the Agreement." [5]

This clause could prove highly detrimental, making it exceedingly difficult to adopt and effectively implement mirror clauses within the EU in the future. This mechanism, introduced at Mercosur's request, could be used to block or hinder the implementation of crucial EU legislation, such as the deforestation regulation (EUDR), or any future regulation regarding the use of hazardous pesticides. It can be considered as an anti-mirror measure tool.

These new texts bring nothing for EU growers or sugar manufacturers in terms of fairer competition and a more even playing field. These texts not only acknowledge the EU's impossibility of defending its own standards but also put at risk its own agriculture and climate policies. They further put at risk our EU sugar beet sector and EU sovereignty in sugar supply.

[5] https://www.gov.br/mre/en/content-centers/statements-and-other-documents/factsheet-mercosur-european-union-partnership-agreement-december-6-2024