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 DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT
 Directorate C. Single CMO, economics and analysis of agricultural markets

Director

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**MINUTES OF
 THE JOINT MEETING OF THE EXPERT GROUP AND THE CIVIL
 DIALOGUE GROUP ON THE FUTURE OF THE EUROPEAN
 UNION SUGAR MARKET**

11 OCTOBER 2016

Co-Chairs: **Mr Schaps**, Director Single CMO, economics and analysis of agricultural markets and **Mr Marihart**, Vice-President CDG "Arable Crops"

The opening by **Mr Schaps** (Director C, DG AGRI) and **Mr Marihart** (Vice-President CDG) underlined the importance of the meeting which gathered stakeholders, Member States and the European Parliament to discuss opportunities and challenges of the abolition of the EU sugar regime on 1 October 2017 (agenda attached).

Mr Orive, Executive Director of the International Sugar Organization, presented the current situation on the world market, which is characterized by high prices and decreasing stocks. He stressed that EU prices will stronger correlate with world prices in the post quota period and an increase of EU sugar exports can be expected. The ISO expects EU exports could reach between 2 million tonnes and 2.5 million tonnes, and EU import levels between 1.5 million tonnes and 3 million tonnes, according to two different scenarios.

Mr Dess, Member of the European Parliament, focussed on the European Parliament's view on the end of the sugar quotas. He referred to the European Parliament's report adopted in 2004 at the occasion of the debate on the sugar reform. The Parliament supported the idea that quotas are essential for the sugar market. In 2013, the European Parliament voted to maintain the quotas until 2020.

In the general context of a market-oriented agricultural policy he stressed the need to address distortions of competition.

In view of the expected higher price volatility MEP Dess pleaded for (1) a system of long term risk management to alleviate the effects of the end of quotas and the end of minimum beet prices, (2) instruments to limits the income volatility (counter-cyclical payments or income insurances), (3) support for investments that focus on local and sustainable farming and producer organisations, (4) support to increase market power of producers in the food chain, including written agreements between farmers and sugar producers.

Mr Assenza (Italy) stressed the risk that in the post-quota period sugar production might not be economically viable in Member States with high production costs, such as Italy, Greece, Finland, Croatia and Romania. In order to ensure beet production in Italy in the

long-run, he proposed a scheme of agri-environment measures for sugar beet growers in the context of the second pillar.

Mr Borek (Poland) focused his presentation on the decreasing bargaining power of farmers in the supply chain. In his view, volatility and business risk will increase after quota abolition, whilst prices and growers' bargaining power will decrease. In order to prevent difficulties similar to the milk sector, he proposed considering a system which manages production similar to the current quota system for sugar production.

Mr Severac (France) emphasised that France is well prepared for the abolition of quotas, with a new inter-branch organisation signed by beet growers and undertakings. In order to preserve market transparency, France considers fundamental an increased monitoring of the EU sugar market, keeping relevant indicators like: production, prices and sugar balance sheet. Hence, for France the tools to be maintained after 2017 are reporting and private storage.

Mr Plewa (Director-General DG AGRI) closed the morning session, recalling that following the abolition of potato starch quotas on 1 July 2012 and milk quotas on 1 April 2015, the EU has just entered the last year of the EU sugar quota system. Bringing the experts of Member States together with key sugar stakeholders is of eminent importance for a successful transition to the post quota regime.

He noted that the current high world market prices offer an opportunity to smoothen the transition into the post quota period.

The aim of the meeting was to make sure that the European Institutions, the National Administrations and the sector representatives have done everything in their capacity to prepare for the post quota sugar market so that opportunities are not missed and the full economic potential can be realised.

At European level the transition to the post quota era has been prepared for more than ten years in which 5.4 billion Euro were spend to facilitate and mitigate its effects. This has enabled the sugar industry to transform itself into a more resilient and competitive sector, able to face the challenges of the post quota era.

He emphasised that the regulatory framework meets the challenges of the time ahead, reminding the market instruments available after 30 September 2017: import protection, collective negotiations, value sharing arrangements and private storage.

Mr Plewa concluded that both stakeholders and Member States are fully aware and have extensively prepared the end of the sugar quota regime.

The afternoon session was split in two subsections, one focusing on the domestic market and the other on international trade and was facilitated by Roger Waite from the Communication Unit E5. The aim was to have a short introduction from each panellist (list enclosed in the agenda) and then an open debate.

In Panel 1, the speakers ranged from beet growers, sugar users, the starch sector and a sugar company (Südzucker). Discussion focused on productivity gains, sustainability and risk sharing. CIBE spoke about the difficult economic context within which producers are operating, including severe price volatility and the risk of oversupply of sugar in a post quota context. There was a plea for enhanced bargaining power and "fair sharing" of returns from the chain. There is productivity gain but strong challenges ahead. The sugar

users are concerned with supply security – a sector which secures 70% of EU purchases. Quota dismantling is perceived as a positive step, especially with convergence of EU and world prices. The main concern relates to the potential of unlimited exports post 1.10.2017- whilst imports are limited due to the fact that the import protection regime is not affected by the quota dismantling (an issue also raised by the cane refiners in panel 2). They referred to a recent Rabobank study on the topic¹. The starch sector spoke about the range of products they are engaged in – food, feed (around 600 different products). Südzucker discussed the efficiency gains in fields and factories; world market is bullish – what we need to look closely at are: a) trade policy and b) crisis management-when/if needed – especially if prices fall significantly.

On sustainability, there was convergence of all speakers that all parts of sugar are used; and there has also been a reduction in GHG emissions. In addition, on the social pillar, the many direct jobs have spinoffs on thousands of indirect jobs. Yields have increased over the past decades – around 2% per annum per ha (e.g. better seeds – but there should be a decision of the balance between sugar content of beet and weight). This was in addition of good agricultural practices; especially in DE/FR special varieties are adapted to regions. This is a strong economic underpinning of the sustainability dimension which will also be positive for the environmental pillar (due to climate change adaptation). EU MS can match Brazilian producers (8 MS have a better yield than Brazil and 3-4 others are close to Brazilian figures). There will be indeed more volatility foreseen which could expose the ACP producers. The main point from an economic sustainability angle is value sharing as some growers/coops are marginalised from global markets. Some environmental NGOs present insisted on the need to look at the inputs channelled to the beet and cane sector including water/pesticides as production costs have risen not least on new regulations/standards and certification. Organic sugar remains very niche as demand is low (DE, AT mainly). There was also a reference to the recent ENV study on agriculture by former DG Falkenberg. Under the Sugar Sustainability Partnership² launched a couple of years ago – CIBE, EFFAT and CEFS a number of good practices are highlighted – main challenges are in southern MED countries (IT, ES, EL) linked to irrigation. The circular economy has also boosted the environmental sustainability dimension.

The health and nutrition dimension was also briefly touched upon (ref to anti-obesity tax) although this is more in CAOBISCO's remit.

The conclusions from this panel concentrated on market monitoring as a key instrument in the post quota period, in particular:

- a. Data compilation on sugar uses (direct consumption versus non-direct consumption use including industry and chemicals);
- b. Price monitoring;
- c. Balance sheet and trade data (unlimited export potential and internal demand).

¹ <https://www.rabobank.com/en/press/search/2016/rabobank-high-world-prices-for-sugar-may-trigger-regional-supply-tightness-in-the-eu.html?languageDoesNotExist=nl>

² <http://www.sustainablesugar.eu/>

In Panel 2, there were 5 speakers, including one from the ACP Sugar group (Fiji). ASSUC (representing EU traders) made a presentation on price correlation- EU is very low compared to say 71% in India and over 65% in US. EFFAT (representing the social/trade union movement in the farm sector) insisted on the need to monitor potential violations on social and environmental standards – especially in trade agreements. There is a need for strong enforcement including the Kyoto agreement. The ACP speaker highlighted the dependence of many ACP regions on sugar on which sometimes entire rural regions depend. And with the policies in the EU's CAP (e.g. Voluntary Coupled Support in some MS), future export potential might be enhanced. This will affect international price levels (and volatility). The ACP countries are concerned about their position on EU markets (preference erosion) despite accompanying measures (AMSP € 1.2 billion support has enhanced competitiveness and diversification). ESRA (cane refiners) discussed the link to the EU market but also the EU development mission; and stressed that there is no level playing field between beet and cane as imports are limited. This caused a debate with the CEFS speaker who discussed the "no level playing field" – with Brazil, US and the dispute with Canada on antidumping duties.

Other topics briefly touched upon by panel members and audience were Brexit (although the effects are deemed limited at this stage), exchange rate fluctuations (which could wipe off competitive edge of productivity gains) and ethanol, which can have a stabilisation role in the market (like in third countries).

In his **concluding remarks**, **Mr Korte** (Deputy Director-General, DG AGRI) summarised the different perspectives and expectations in the post quota era and highlighted again the various opportunities linked to the abolition of the quota.

He considered the event successful and an interesting experiment having Member States and CDG stakeholders jointly invited. This could be a "model" for similar future events.

The overall political direction was provided by DG Plewa in the morning; this debate on post quotas was also tackled at this week's AgriFish Council in Lux (10/10). So this meeting was timely and helpful to feed into the Commission's reflections on agri markets. The change next year was not unexpected and was a long, thought through process. And it cannot be compared with the milk sector. The sugar sector in a deregulated scenario will still have a number of instruments at its disposal – voluntary coupled support, private storage aid, border protection, CMO. Market monitor remains a key task as well as transparency and balanced bargaining power in the supply chain – a topic which will be tackled with the unveiling of the AMTF report in November.

Finally, DDG Korte mentioned the future events planned to discuss the sugar sector - both within the CDGs and the expert group, which should complete its task with a wrap-up meeting in spring 2018 to take stock of the impact of the quota elimination.

< e-signed >

Jens SCHAPS

pour le Directeur empêché

Silke BOGER

AGENDA

Morning session 10:00 – 13:00

- 09:30* *Welcome coffee*
- 10:00** **Opening and introduction**
Mr Schaps and Mr Marihart
- 10:15** **Situation on the World Market**
Mr Orive, International Sugar Organisation
- 11:00** **EP position on the EU Sugar Market Post Quota**
Mr Dess, Member of the European Parliament
- 11:45** **Member States' Perspective on the future EU Sugar Market**
Mr Assenza, Ministry of Agriculture, Italy
Mr Borek, Ministry of Agriculture, Poland
Mr Severac, Ministry of Agriculture, France
- 12:30** **Commission's Perspective on the EU Sugar Market Post Quota**
Mr Plewa, DG Agri
- 13:00* *Lunch break (lunch provided by the Commission)*

Afternoon session 14:30 – 17:30

14:30 Expectations from Stakeholders and Industry – Panel Discussion

Facilitated by the Commission, Mr Waite

Panel 1

14:30 Long-term trends of the EU sugar sector and domestic market outlook

Panellists:

***CIBE** (Ms Lacoste): improving productivity and sustainability at the farm level*

***CIUS** (Mr Guichard): demand prospects for sugar users in the post-quota period*

***Starch Europe** (Ms Jacques): prospects for isoglucose in the post-quota period*

***Südzucker** (Mr Neundorfer): enhancing competitiveness of the European sugar sector*

Panel 2

15:45 Opportunities on the international sugar market, EU trade and social policy

Panellists:

***ASSUC** (Mr Price): the relationship between the world market price and the EU sugar price – now and in the future*

***ACP** (Mr Singh): the impact of EU trade policy on the ACP cane sugar sector*

***ESRA** (Ms Girol): the impact of the EU trade policy on the cane sugar sector*

***EFFAT** (Ms Brentnall): the importance of upholding labour rights and environmental standards in the context of trade negotiations*

***CEFS** (Ms Ribera): EU's perspectives to achieve a level playing field on the sugar world market*

17:00 Conclusions and Closure

Mr Korte, DG Agri

Liste des participants/*list of Participants*

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DATE : 11 OCTOBER

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