Brussels,

FINAL MINUTES

Meeting of the Civil Dialogue Groups ARABLE CROPS Sugar & Rice

Date: 13/12/2017

Chair: Mr Jean Michel ASPAR (CELCAA)

Organisations present: All Organisations were present except Birdlife, EBB, EURAF and Fertilizers Europe.

1. Approval of the agenda

The agenda was approved.

2. Nature of the meeting

The meeting was non-public.

3. List of points discussed

Opinion of the Group on the situation and prospects for the world market for EU sugar exports (report presented by Julian Price, President of ASSUC)

ASSUC presented the price situation on the world market.
Analysts estimate on average a global surplus of 6 mt for 2017/18.
In Brazil there is a shift towards ethanol production, which is currently more remunerative than sugar. RenovaBio – Brazil's RED – has been approved by the senate. The Brazilian industry expects higher prices next year.
Pakistan could export perhaps 1.5 mt in 2017/18 supported by export subsidies. Millers are lobbying for yet higher subsidies.
In NAFTA, U.S. sugar production is projected to increase. The President of the United States has inferred that NAFTA could be cancelled, which would have knock-on effects for the global sugar trade (more ACP sugar entering the U.S. instead of the EU; Mexican sugar in need of a home).
In China refiners are lobbying to increase the country's import quota. A debate is ongoing as to whether the reserve within this quota for developing countries will stay or go.
Weather around the world is relatively benign, due in part to a weak/moderate La Nina. Wetter weather in Cuba; dryer weather in Argentina. Very high output from Central America expected.
In Eastern Europe, Russia is expecting a record crop of 6.5 mt. Ukraine is expecting c. 1.9 mt (down from earlier estimates of 2 mt).
Looking back at a historical series, it is clear that there has hitherto been almost zero correlation between EU reported prices and the London No. 5 futures market. Quite the contrary, the two markets seem to be "completely detached."
EU sugar exports will continue to go to the South East: towards the Middle East. But with the end of quotas this sugar will have to travel further to find a home.

SACAR noted that Pakistan's export subsidy could hit 180 USD/tonne.
CIUS asked whether the EU will react to Pakistan's export subsidies.
CIBE noted that as a developing country Pakistan is free to subsidise its exports until 1 January 2019, in line with the WTO Ministerial Declaration on Export Competition.
Mr Aspar asked whether sugar is still entering China illegally.

ASSUC agreed that Pakistan's export subsidies are substantial.
ASSUC confirmed that sugar continues to enter China illegally, albeit at a slower rate than previously.
COM declined to comment in response to the question from CIUS.

Presentation by the Commission on the updated sugar and isoglucose 2016/17 balance-sheet and exchange of views on 2017/18 balance-sheet.

COM presented that updated balance sheet presentation.
EU white sugar prices suffered their biggest ever fall since the price reporting system was established in 2006: as at October 2017 they were at 411 EUR/tonne, their lowest ever level.
EPA/EBA imports are entering the EU at a much slower rate than in 2016/17.
Exports are strong: 638 kt in October and November alone.

CGB asked why the statistics on inward processing are never balanced (there appears to be structurally more imports than exports under the scheme).

COM responded that this is because a lot of sugar imported under inward processing is re-exported in sugar-containing products. The sugar content of these products is not directly quantifiable on the basis of the EU customs code, since the tariff lines do not differentiate on the basis of sugar content. It is therefore not possible to determine the quantity of sugar exported in sugar-containing products. COM does not receive notifications concerning the quantities of sugar exported in sugar-containing products.

COM presented the revised balance sheet.
Sugar production for 2017/18 could hit 20.6 mt. Isoglucose production is likely to be close to 2015/16 levels.
Consumption of sugar for food use was revised down by c. 300 kt for 2016/17; consumption of sugar for the production of bioethanol was revised down by c. 600 kt for 2016/17; exports of sugar in sugar-containing products were revised up by c. 100 kt.
Consumption of sugar for food use set at 16.8 mt in the forecast balance for 2017/18, i.e. substantially up on 2016/17.
COM stressed that all of these figures may be revised as the campaign progresses.

CGB queried the large fall in sugar consumption for the production of bioethanol, which fell by almost half in 2016/17 vs previous estimates. How will COM follow bioethanol production in the post-quota period? Further, CGB questioned why sugar consumption for bioethanol production is expected to increase again to 1.35 mt in 2017/18.
CEFS noted that exports could reach 3-4 mt in 2017/18, if the discussions in the Sugar Market Observatory are to be taken as a reference. If that turns out to be the case, it would result in ending stocks for 2017/18 that are at a similar level to those for 2016/17. Exports of sugar-containing products could also be higher. CEFS requested closer monitoring of sugar exported in sugar-containing products. CEFS stressed the uncertainty of the current market situation and the need to monitor the market closely.
ESRA stated that the so-far low uptake of the CXL import quotas demonstrates that the 98 EUR/tonne tariff levied on most such imports is difficult to overcome in the current market situation. ESRA called on COM to offer tariff-rate quotas to its trade partners in the context of the Mexico and Mercosur negotiations.

CIBE noted that COM's forecast for isoglucose production in 2017/18 (0.85 mt) is lower than the medium-term outlook 2016-2026 (1 mt).
PAN requested information on organic sugar cultivation in the EU. CIBE confirmed that it collects such figures.
SACAR noted that fewer imports than forecast will enter the EU market should domestic prices not improve.

Regarding bioethanol notifications, COM responded that producers are from 1 October 2017 obliged to notify quantities of bioethanol produced from sugar (in hectolitres) by the end of March for each campaign. These quantities will then be converted to white sugar equivalent for the purposes of the balance sheet by using a coefficient.
Regarding import figures, COM noted that they are based on existing market factors. They will be revised as necessary. The balance sheet is after all only a forecast based on available market information.
Regarding isoglucose production, this is lower than in the medium-term outlook because new production capacity is not yet online, and may only come online in the coming months.

CIBE noted its concern with the collapse of EU sugar prices. The medium-term outlook expects prices to remain at a very low level for the foreseeable future. This will impact beet prices, and could affect the viability of beet cultivation in certain regions.
CGB called for a price reporting system that is quicker (less delayed). CGB called for regional price reporting.
ECVR called for more transparency in the market.
Mr Aspar noted that, given that the London No. 5 market will be more aligned with the EU market, farmers may use futures contracts to hedge. Mr Aspar also noted that much will depend on the outcome of the RED II discussions.

COM responded that it should not be a surprise that beet prices have fallen. COM understands the concerns of operators: price levels should inform sowing and production decisions by operators for the 2018/19 campaign.
Regarding regional price reporting, COM is currently considering how to publish regional prices.
COM noted that sugar processors and beet growers are linked by contracts, which provide substantial certainty. Farmers will not sell their beets at below production costs.
COM stressed that all market operators must learn to adapt to the new market context.

'A small complement on price'

COM presented a supplementary situation on price behaviour.
A number of open questions were posed:

- Will the EU price and world market price converge?
- Will the London No. 5 and NY No. 11 contracts continue to be synchronised?
- Will arbitrage opportunities remain between the London No. 5 and NY No. 11?

COM noted the large difference in liquidity on the London No. 5 (low liquidity) and NY No. 11 (high liquidity) markets.

CIBE expressed interest in the net position of non-commercial buyers, and the influence of this on price levels.
CIUS considered convergence between the EU and world market price to be natural if operators use the London No. 5 market to hedge.
CIBE noted that growers are interested in using futures markets as a reference for contracts. In this way, beet prices might be indexed to the futures market.

CEFS noted that there is no futures market for sugar beets. CEFS expressed concern regarding the ongoing discussion on neo-nicotinoids. A ban on such substances for the sugar beet sector would aggravate an already-fragile market situation.
CEJA concurred with CEFS on the point of neo-nicotinoids: a ban on such substances for sugar beet would result in huge losses. Such decisions must only be taken on the basis of scientific evidence. EFSA has requested extra time to consider whether or not such substances are damaging for bees.
PAN disagreed, claiming that neo-nicotinoids have been discussed extensively and have been found to have consequences for wildlife. Organic sugar beet growers claim that the biggest difficulty is not giving up neo-nicotinoids but giving up herbicides.
CIBE have fought hard to prevent a ban on neo-nicotinoids for sugar beet. CIBE stressed that neo-nicotinoids are only used in seed pelleting in the sugar beet sector; this is the most sustainable technique to avoid damage from pests. Banning neo-nicotinoids will have a huge impact on the sustainability of the EU beet sugar sector.

Report by the Commission on the meeting of the Sugar Market Observatory on 15 November

COM noted that most points have already been discussed under other agenda points.
All but one experts were represented at the meeting on 15 November. In addition, three observers were welcomed.
The main topics for discussion were trade and consumption.
ASSUC and a representative of the ACP/LDC presented on trade and market evolutions. There was a constructive debate to the effect that imports could be lower than expected and exports could be higher.
Regarding consumption, CIUS delivered a presentation during which it highlighted the fragmentation of the sugar-using market as preventing the formulation of a more complete picture of sugar consumption.
The next SMO has been tentatively scheduled for April 2018.

Exchange of views on the situation of the rice market and in particular on imports of milled, husked and paddy rice of various origins including the EBA (Cambodia, Burma) and ACP (Guyana) countries

A representative from the Commission gave a presentation on the rice market situation at world and EU level. This presentation is available on DG AGRI's website. The stocks levels were still high at the beginning of new marketing year 2017/2018. In September, there were slightly higher imports compared to last year. Prices of paddy rice are lower than last year in particular in Italy. As regards the new marketing year, there is a slightly lower area and a slightly lower production forecast. He then explained the outcome of the mission of the Commission in Cambodia where they met with the government and the industry. The COM's objective was to convey a clear message of limits to absorption capacity of EU rice market. On Cambodian side, they banned completely the use of tricyclazole and they are concerned with the safeguard clause. They ensured that they are now engaged in diversification and quality production and they focus on fragrant rice. The COM will continue consultations with Myanmar as well.
A representative from CELCAA asked if the safeguard clause was successful and if it was already implemented.
A representative from the farmers said that Copa and Cogeca had already called for the implementation of the safeguard clause when Ciolos was the Commissioner for agriculture, but Copa-Cogeca did not get it and since then prices of rice at EU level have plummeted. Since rice production is the only crop that can grow in the main current production sites, EU farmers are being squeezed between the low prices and the high production costs. The Italian government will put forward a new request for opening the safeguard clause, however it has not been yet sent to the Commission. In addition, the representative from the farmers fear that a mechanism of triangulation also takes place. In addition, recently a humanitarian crises took place in

Myanmar against a minority. Another representative from the farmers added that in France, only 11 actives substances are allowed for use in plant protection, whereas in India and South East Asia, there are 25 actives substances allowed and some of them are forbidden in the EU. There is no level playing field between EU farmers and farmers from these countries.
A representative from CEJA highlighted that broken rice is also bought in the EU, so it has to be taken into account by the COM when it comes to the volume of imports.
The COM replied that with regards to triangulation it is necessary to provide proof before the Commission can take action. If the safeguard clause is implemented, it might only last for a limited period and one should be careful that there won't be negative and unforeseen impacts.

Tricyclazole LMR - state of play

This item was cancelled because no one from the Commission could attend this meeting. However it will be addressed during the next CDG meeting.

Information on the MERCOSUR negotiations (and the TRQs on rice)

A representative from the COM gave a presentation. He mentioned that the negotiations are on-going and are highly secretive, however rice is considered as a highly sensitive product. Figures were released in the press, however it is not possible to confirm or deny these figures. In addition, nothing is agreed until everything is agreed. As a general rule, when it comes to sensitive products in FTA negotiations, TRQs are foreseen, unless both parties decide to exclude it.

BREXIT and DG AGRI approach to negotiations: timetable, structure, input from the CDGs

A representative from the Commission gave a presentation on the state of play of the negotiations. These negotiations should be concluded by October or November 2019 and at that date, UK will become a third country to the EU. There is still a lot to accomplish during such a short time. Last Friday, the COM agreed on a joint report on the first phase of the negotiations which covers the main line on a financial settlement and the framework of relations with Northern Ireland. If there is a mutual agreement on this first phase, the second phase of negotiations can start. This new phase will cover the scope of future relations including trade relations with UK. A 2 years transition period could be foreseen with the continuous implementation of the single market and with all the 4 freedoms. As regards TRQs, the COM will assess it on a period of three years of use and share it between UK and EU. In addition, as regards this process, it is important to encourage an orderly withdrawal so as to ensure as much predictability and stability as possible. As regards SPS, customs and rules of origin, this will depend on UK's policy. Finally, nothing is agreed until everything is agreed.
A representative from industry asked for further clarification as regards the future relations between Ireland and UK and in particular on the border with Northern Ireland. Then as regards the current rice intra-EU trade, UK is a major importer of rice and this should be maintained.
CEJA asked if a transitional period will be implemented and if it could be longer?
A representative from COPA said that with the future trade relations with UK, it will be of upmost importance to ensure that there won't be any triangulation, because UK is also a big importer of rice from third countries. The current EU market situation is bad for EU rice producers and the future agreement with UK could make the situation go worst.

A representative from FoodDrinkEurope said that as regards TRQS, when looking at the history of 3 years of trade flow as a reference, one should keep in mind that those years could not be representative of normal trade flows.

The Chair mentioned that UK imports sugar to be processed in the EU and because of the very complex and non-harmonised rules of origin and with the triangulation mechanism, it could become English if refined in UK, so there is a need to be vigilant.
SACAR asked if there will be a commitment to continue with preferential trade like with ACP countries?
The Commission representative replied that as regards Northern Ireland, the EU is committed to securing the peace process, therefore they are very careful with this issue and it is one of the most difficult ones. As regards the transition period, there should be a pre-determined transition period and it won't last forever. Much care will be made to ensure that there won't be any triangulation. As regards TRQs, the COM is aware that the three years trade flow period could not be representative data, therefore they will gather further data in that case.

Hazard-based assessment of plant protection products and their impact on the rice sector (Presentation by stakeholders)

A representative from the industry gave a presentation. He started with a brief reminder of the EU revised approach to the approval of plant protection products. He explained that the EU moved from risk to hazard-based decision making. He then indicated the possible substances which could be impacted in Spain and Italy and the implications for the EU rice production. Given that this presentation is a first analysis, he ended by asking if this overview reflects the actual plant protection product use in Italy and Spain. What are the implications of reduction in plant protection production in other EU rice-producing countries? What are the implications for rice production of removal of these products? What strategies can be developed to anticipate and managed these developments?

A representative from Cogeca said that today there are less and less products that can be used in order to protect the crops, and in particular when it comes to fungicides. In addition, the remaining substances that are allowed follow the same mode of operation, which is very risky in case of resistance.
A representative from EEB said that in the EU, consumers pay a lot of money for farmers so they expect something in terms of climate change or environment. The road is not easy but EEB supports the process, for example by developing further organic rice. In addition, the difference between hazard-based decision making and risk-based decision making is very important.

A.O.B

- On the change of varieties that are duty free for husked rice from India and Pakistan. A representative from the COM explained that according to article XXVIII of the GATT negotiations, this should be dealt with by the Council. We are now at the beginning of a process that should last at least two years.

4. Conclusions/recommendations/opinions

Organic sugar should be added to the agenda of the next meeting of the Civil Dialogue Group on sugar, covering: areas, rules, import conditions.

5. Next steps

<u>Guidance</u>

This part of the minutes should provide comprehensive information on next steps, as agreed during the meeting, including on the issues to be discussed in future meetings, the tasks to be performed by the group and the general timeline.

6. Next meeting

The next meeting of the CDG sugar will take place on 16 March 2018 (morning).

From now on, two meetings of the CDG sugar are to be held per year. This reduction is part of a general process of rationalisation. If need be, additional meetings might be organised.

7. List of participants - Annex

List of participants– Minutes

Civil Dialogue Group ARABLE CROPS Sugar & Rice
Date: 13/12/2017

Nom/Name	Prénom/ First name	ORGANISATION EUROPEENNE/ EUROPEAN ORGANIZATION
BESCOND	Aurore	FoodDrinkEurope
BOIS	Pierre-Emmanuel	COPA
BOUWERS	Iris	CEJA
BUDER	Thomas	EFFAT
CARTER	Christopher	FoodDrinkEurope
COTTEN	Gildas	C.E.P.M.
DALBY	Jorn	COPA
DAVIS	Lynne	ECVC
DE GRAAF	Kasper Aljen	COGECA
DEJONCKHEERE	Dominique	COGECA
DENIS	Robin	CELCAA
DOBRESCU	Emilian	CELCAA
DOLEJSI	Dagmar	ELO
ESTEVE	Morgane	FoodDrinkEurope
FOY	Pascal	COPA
GAWRYSZCZAK	Michal	CELCAA
GWARA	Wanda	COPA
IOVINO	Roberto	EFFAT
IRELAND	John	CELCAA
JACQUES	Juliette	FoodDrinkEurope
JANECEK	Lukas	CEJA
KIONKA	Christian	CELCAA
KOCH	Henning	SACAR
LACOSTE	Elisabeth	COPA

LANG	Isabella	IFOAM EU Group
LECERF	Gwenael	FoodDrinkEurope
MARIHART	Johann	FoodDrinkEurope
MESRINE	Lucie	Bee Life
PEREZ VEGA	Daniel	SACAR
PFEUFFER	Paul-Martin	COPA
PINTAUD	Eric	FoodDrinkEurope
PRICE	Julian	SACAR
RACAPE	Joseph	EEB / BEE
REZZIN	Marzia	ECVC
RIBERA	Marie-Christine	FoodDrinkEurope
ROCHA	Ana	ELO
SCHWAGER	Aneke	EuropaBio
STRACHOTA	Rafal	COPA
VAN ROESSEL	Jan Willem	COPA
WIEDUWILT	Romana	COPA
ZAVODSKY	Peter	COPA
ZUSER	Werner	FoodDrinkEurope
GARTLAND	Josh	Note taker FoodDrinkEurope