18th February 2015
CDG Arable Crops

SUGAR

1. Agenda and reports of the last meetings on 30th September and 5th November 2014

The agenda and the reports of the last meetings were approved. A representative of the molasses industry was disappointed to see the international aspects of agriculture had been dropped from the agenda because as long as the Single CMO for sugar remains, trade agreements will have an impact on trade flows and the overall market balance and this should be addressed in the CDG Arable Crops. This was seconded by a representative of the beet growers.

The rules of procedure were adopted.

2. The situation and prospects for the world market for EU sugar exports

A representative of the sugar traders presented the situation and prospects for the world market for sugar exports, explaining that world market prices had hit a six year low. The world market is heading towards a small deficit and the question on everyone's lips is how to get rid of the high stocks (around 30% of global consumption) which have accumulated over the past five years. Prices are lower than the costs of production for almost all producers which means there is little appetite for investment. He went on to describe the situation in Brazil and the recent measures taken by the Brazilian government to promote the cane/ethanol sector e.g. an increase in the tax on petrol and the ethanol blend rate. The weaker Brazilian Real is also encouraging exports, not least because it increases the amount of millers' debts in Real terms but keeps prices in Real equivalent high enough to encourage exports. Commenting on the weather in Brazil, he said there was significant drought in the Centre-South in 2014 although prospects now look more promising as there has been more rainfall in February. Moving on to Thailand, he explained that the season was off to a good start and out of 10.2 mt of sugar production, around 8.3 mt of sugar should be available for export. In China, stocks are high and production is expected to be about 24% lower than last year. Nonetheless the market has rallied and importers are now making a profit importing outside China's TRQs. Volumes traded in China are greater than the volumes traded elsewhere and the Chinese are big speculators. Moving on to India, he said that although the mills were in bad shape, production forecasts were good and the government was expected to approve an export refund on raw sugar in the next few days[1]. Outlining the US-Mexico agreement, he noted that Mexico would make up 100% of the US market, leaving no room for imports from third countries. With regards to the EU, he stressed that prices fell around 40% in 2014 and a record-breaking campaign meant the EU's market was well-supplied. While the quota market for 2014/15 is quite tight, this won't be a problem in 2015/16 because out-of-quota sugar will be carried forward to become quota sugar at the end of the current marketing year. Moving on to world market prospects, he said current weather forecasts were benign and the market could remain on its knees. Speculators are waiting for something to trigger a move in the market but there is nothing to suggest an immediate change. With the US dollar strengthening, the world market could be of interest to the EU if not for the WTO limit and the Brazilian Real is quite stable. Finishing, he explained that the freight market was at an all-time low with a number of bankruptcies among ship owners. As a result we are seeing record amounts of raw sugar being shipped (+ 60,000 tonnes).

[1] An export refund of INR 4,000 ($62) per tonne for the export of 1.4 mt was approved on 19th February

A representative of the beet growers asked if the traders' estimates for EU sugar production included the ethanol equivalent. She welcomed the mention of trade measures in third countries, for example India's export refunds and Brazil's tax credit programme, which raise some serious concerns, in particular as the EU moves towards a free market. She asked what the Commission intended to do about these measures and whether it would follow up on the questions it had raised in the WTO's Committee on Agriculture. The sugar traders' representative said that he had included ethanol and that the beet growers' representative was right to point out that most countries are implementing trade distorting measures.

A representative of the sugar producers welcomed the presentation, particularly the point that the world market price did not cover the costs of production in most countries. Third countries are facing difficulties and governments in e.g. Brazil, India and Thailand are taking measures to support their industries. The Commission should be tougher towards these countries (the questions raised in the WTO's Committee on Agriculture are a start) and should not grant further concessions in free trade agreements.

A representative from DG Agriculture said the Commission was well aware of the measures third countries were taking to support their cane/sugar sectors and that the Commission would consider action if there was sufficient proof of damage. This was difficult with the WTO export limit. The Commission will continue to put pressure on third countries, for example asking questions in the WTO's Committee on Agriculture, and will take these measures into account when negotiating trade agreements with e.g. Thailand.

The beet growers' representative said it was not a question of potential damage/injury to the EU market but a question of WTO compatibility. The 2004 WTO panel on sugar did not look at damage to domestic markets, it ruled on whether the EU met its commitments schedule.

A representative from DG Agriculture asked the traders how it was profitable to import outside the TRQ in China and pointed out that rainfall in Brazil was not much lower than in previous years. He asked him to explain the slide comparing the difference in the ethanol blending rate and its impact on the floor price for sugar. The traders' representative explained that the domestic price in China had increased substantially making imports profitable. He agreed that while the drought in Brazil was not catastrophic it could move the market. The slide on parities serves to illustrate that the measures in Brazil set a floor price for sugar and the balance between ethanol and sugar has an impact on the market.

The beet growers' representative again asked the Commission if measures in third countries, for example Brazil's tax credit programme which now stands at $387 million, were in line with the WTO's ministerial declaration on export competition. The Commission did not reply.

3. Commission presentation on prices, sugar trade statistics and the 2014/15 balance

Prices

A representative from DG Agriculture announced that the December EU average price for white sugar would fall 10-15 /t from the November price (449 /t). He recognised that prices had dropped significantly and were at their lowest since price reporting began. The December EU average price for industrial sugar should be about the same as the November price (351 /t). The ACP/LDC average price was 421 /t for white sugar and 392 /t for raw sugar in November. The raw sugar price was higher than the white sugar price in October. It should be the same in December because two types of raw sugar are imported (raw sugar for refining and raw sugar not for refining) and the proportion of the two impacts on the average price (a weighted average).

Sugar trade statistics

Imports under EPA/EBA reached 2.2 mt in the 2013/14 marketing year. On the 27th January 2015, the Commission saw a 6% drop in imports compared to the same time in the previous year. Four countries make up 50% of this sugar (Mauritius, Fiji, Mozambique and Zimbabwe). Four member states account for 80% of these imports (the UK (21%), Germany (19%), Portugal (19%) and Spain (10%)). Under the TRQs the CXL fill rate was 52% (325,000 t from Brazil did not come in) and the Balkan fill rate was 92% in 2013/14. Imports have been much lower in 2014/15 and this has an impact on the 2014/15 balance. Under the TRQs managed by DG TAXUD there was a 90% fill rate for sugar and a 0% fill rate for high sugar content products from Central America, Colombia, Peru and Panama in 2014. The demand for these TRQs has been low in 2015. Ukraine also has two new TRQs (sugar and isoglucose) from 2015. EU cumulated imports for 2013/14 totalled 3.2 mt (69% from ACP/LDCs, 7% from Brazil, 5% the Balkans, 9% from Central America, Colombia and Peru and 10% from other origins). At the end of 2014 imports for the 2014/15 marketing year were a bit higher than at the end of 2013.

The EU saw an increase of about 25,000 t above the average (from 50,000 t to 75,000 t) in quota sugar exports in the 2013/14 marketing year. The Commission expects quota exports to remain high in the 2014/15 marketing year.

The final ending stocks for the 2013/14 marketing year, based on member state communications, were 1.854 mt. With 8.417 mt of stocks in October 2014, compared to 7.376 mt in October 2013, stocks were much higher than in the previous marketing year.

A representative from the beet growers asked the reason for the two prices for raw sugar imports from ACP/LDCs and pointed out that the refining premium is decent with current prices. He asked to maintain the distinction between the two prices. The Commission representative explained that the Commission had to publish one price for raw sugar imports in accordance with the regulation but wanted to explain why the raw sugar price was above the white sugar price.

A representative of the molasses industry asked why some TRQs are managed by DG Agriculture (licences) and some are managed by DG TAXUD (first come, first served). A representative from DG Agriculture said that the Commission would like to manage all TRQs on a first come, first served basis but when demand is high it remains in the hands of DG Agriculture.

The balance sheet from 29th January 2015

The Commission representative presented the 2013/14 final balance. The production figures were lower than forecast at 16.7 mt of sugar, about 600,000 t less than the previous marketing year. This resulted in 14.2 mt quota and 3.9 mt out-of-quota (sugar and isoglucose), about 900,000 t out-of-quota less than the previous marketing year. Imports as such were 3.2 mt (2.22 mt from ACP/LDCs, 0.215 mt from Brazil, 0.22 mt from Cuba, 0.185 mt from the Balkans and Moldova, 0.27 mt from Central America, Colombia and Peru, 0.1 mt from other origins) and imports in processed products were 0.58 mt. When compared to the previous estimate, the biggest change for the 2013/14 quota balance was in imports with 170,000 t more than expected. Ending stocks for 2013/14 (beginning stocks for 2014/15) were therefore less than earlier estimates at 1.85 mt. We have also seen a slight increase in consumption of 400,000 t (8-9 days of consumption). Exports (as such) were higher than forecast due to an increase in quota exports.

The traders' representative asked why imports from Cuba were lower than Eurostat data and the Commission representative explained that it shows sugar under one CN code only. He will provide more information at the next meeting.

The Commission representative then presented the 2014/15 forecast balance. Ending stocks for 2013/14 resulted in 1.854 mt of beginning stocks for 2014/15. Production is estimated at 19 mt of sugar and 0.7 mt of isoglucose, with Greece and the French (Dom) not filling their quotas. Out-of-quota sugar production is high and out-of-quota isoglucose production is low. The Commission has revised imports down to 3.2 mt (2 mt from ACP/LDCs, 0.05 mt under the CXL, 0.22 mt from the Balkans, 0.26 mt from Central America, Colombia and Peru, 0.04 mt under the transitional measures for Croatia and 0.05 mt from other origins). The 0.58 mt for imports in processed products was taken from 2013/14. This means the total amount available in 2014/15 is 19.28 mt, down from 2013/14. Consumption is the average of the last five years + 56,000 t from Croatia, and we have seen an increase in exports. Final stocks are about 1 mt less than the previous year. In 2012/13 the EU had a stocks-to-use ratio of 15%, this fell to 11% in 2013/14 and 5% in 2014/15. The stocks-to-use ratio on the world market is around 40%. Out-of-quota ending stocks are high which means a significant volume with be carried forward.

The representative of the sugar producers said the 2014/15 forecast shows the market is in good supply. The exceptional measures taken in previous years resulted in high stocks and he reminded the Group that it is expensive for producers to store sugar. The Commission should not aim for a 40% stocks-to-use ratio. With over 6 mt of out-of-quota sugar there is no need for the Commission to take measures to increase supply and the Commission should maintain the 98 euro/tonne CXL duty. He was also concerned to hear that prices were expected to drop a further 10-15 /t from November and stressed that the sector faced considerable difficulties as a result of current market conditions. He asked for more information on the expert group and drew attention to CEFS' letter to Commissioner Hogan which explains that the Commission does not need to establish an expert group because it has the tools to monitor and manage the market today.

The Commission explained that the expert group was a technical group. The political decisions with regards to the future of the sugar sector were taken in the 2013 CAP reform and the Commission did not want to reopen the debate. The expert group will meet three to four times a year (March, July and October 2015). The member states will be asked to nominate "qualified experts" to deal with a number of topics, including market developments and the management of the market. The unit responsible for the Commission's Prospects 2014-2024 will be asked to present the long-term market developments twice a year. The group will also look at the relationship between the markets for sugar, industrial sugar and ethanol. It will look at the impact of climate change and will be asked to examine what impact concessions granted in FTAs have on the market – and how this should influence future trade negotiations. The Commission representative stressed that the Management Committee remains the forum in which member states discuss legislative acts.

The beet growers' representative said that while in-depth analysis was interesting, she felt the work of the expert group should lead to concrete proposals. She also supported the sugar producers, pointing out that current EU stocks should not be compared to world market stocks, not least because the EU remains with a quota system and there is enough sugar on the market for the 2014/15 *and* 2015/16 marketing years. She stressed that the Commission does not need to increase supply, bearing in mind that CIBE's production figures for the 2014/15 marketing year are higher than the Commission's production figures.

Pointing to the 2014/15 ending stocks, a representative from the sugar users said users were concerned that there might not be enough sugar on the market in the 2015/16 marketing year and asked the Commission to consider taking measures if necessary.

The beet growers' representative reminded the users that with 8.417 mt of stocks in October 2014, compared to 7.376 mt in October 2013, stocks were much higher than in the previous marketing year. She repeated that according to the Commission's balance sheet and sowing forecasts, there was enough sugar on the market for food and non-food outlets for the 2014/15 and 2015/16 marketing years.

4. The Single CMO delegated and implementing regulations on sugar following Regulation (EU) No. 1308/2013

The Commission representative explained that most regulations fall after 2017 and do not need to be brought in line with the Lisbon Treaty. He took note of the requests he had received, explaining that the EU had a legal obligation to continue price reporting. He also received a request to continue the distinction between sugar and industrial sugar. Once the Management Committee has finished the work on Regulation (EC) No 828/2009 (the sugar mini-package) in March, the Commission will begin discussions with the member states. The horizontal unit in DG Agriculture is also working on the horizontal regulations on trade mechanisms and the sugar unit will wait for this to finish before starting on the sugar-specific trade regulations. The Commission should maintain import licences for imports from Moldova and Georgia because an anti-circumvention clause was included in the agreements but will ask for a derogation. He reminded the Group that the new Commissioner asked the Commission to focus on simplification and better regulation and that DG Agriculture would have to bear this in mind.

A representative of the sugar traders asked about import licences for imports from the Southern African Development Community (SADC) and the Commission representative said SADC imports do not need licences.

A representative of the sugar traders asked about import licences for imports from the relevant ACP counties of the Southern African Development Community (SADC), once the EPA is in place. The Commission representative said imports from all EPA-SADC countries will continue to need licences, unless there are concrete provisions in the EPA.

The sugar producers' representative reminded the Commission that a number of provisions in the regulations would need to be maintained, not least because sugar remains eligible for aid for private storage. The representative from DG Agriculture said the Commission does not have information on stocks in the other sectors eligible for private storage and he would have to see how the work on the regulations progresses.

The beet growers' representative said the sector would need some notifications after 2017 and the balance sheet and price reporting scheme must be maintained to make the market more transparent, helping to achieve a balance between the different operators. She asked when the Commission would complete the work on the delegated and implementing acts and the Commission representative said the deadline was 1st October 2017.

5. AOB

A representative of the beet growers asked the Commission to include the Transatlantic Trade and Investment Partnership (TTIP) on the agenda. He reminded the Commission that as the US had asked to exclude sugar, the EU should also ask to exclude ethanol – ethanol should not be treated as a sensitive product. He mentioned the importance of ethanol for growers and said the legislation should provide a stable framework for investment. The Commission representative said it would be discussed in the expert group.

A representative of the molasses industry supported the exclusion of sugar and ethanol and called for more US molasses into the EU. The Commission replied that there is no TRQ for molasses at the moment.

The Chair gave the dates for the next meetings on sugar (17th June, 30th October and 11th December) and said he had requested a 10 am start in the future.