

17th June 2015
CDG Arable Crops

“SUGAR SECTOR”

1. Agenda and reports of the last meeting on 18th February 2015

The Chair opened the meeting at 9.30. The agenda of the meeting and the report of the last meeting were approved.

2. Debate on prospective risk management: presentation by Copa-Cogeca;

A representative of Copa-Cogeca (Chair of working party Cereals at Copa-Cogeca) presented an overview on the risk management in arable crops, highlighting the type of risks, the various strategies developed to manage them (prevention, compensation, diversification, transfer) and the need for a strategic reflexion on this issue in the CDG arable crops. He also stressed the different approaches in the Farm Bill and in the CAP to deal with this issue: the Farm Bill introducing complete, coordinated and dynamic instruments while the CAP approach and its various regulations remained inconsistent with addressing increasing risks.

The representative of the European beet growers thanked for this overview and asked whether the new horizontal framework on producers' organisations and contractual relations would help address this issue. She also informed that European beet growers were looking at other possible tools, such as futures market, to mitigate the future price risk in the beet sugar sector after the abolition of quotas in 2017.

The representative of EEB (environmental NGO) emphasized that farmers were at the forefront of increased risks, mainly related to climate change and extreme weather patterns. Environmental organisations welcome the suggestions and ideas from farmers or institutions like the G20 towards sustainability and management of price volatility.

An Italian farmers' representative pointed out that current insurance covers did not work properly and their costs were high. He recalled the importance for farmers of ranking their risks correctly; noting that market risk has often a low priority because of low knowledge on markets.

The representative of Copa-Cogeca replied that in fact he did believe that producers' organisations would help on the market to a certain extent. He noted the differences among European countries on this issue and confirmed that risk management tools had to be used well, taking into consideration that it was difficult for a farmer to list his risks correctly. On this point, better training and information were very welcome.

A representative of the Confédération Paysanne expressed his cautiousness vis-à-vis these tools, in particular if based on private funding and not on public funding.

A representative of DG-Agri welcomed the debate but highlighted that decoupled payment should be taken into consideration as a powerful tool to stabilize farmers' income. The level of direct payment already provided a basis of income. In addition, the last CAP reform had turned to 90% decoupling, introducing voluntary coupled support for sectors in risk of abandonment. Furthermore, he pointed out that tools for financing risk management had been introduced in the Rural and Development regulation, but so far MSs had shown little interest in it. He agreed that risk management tools were expensive but did not consider that more money would be available in the CAP to develop such insurance tools.

The Chair of the CDG arable crops concluded this point by stressing the rapid pace of CAP reforms or mid-term review of CAP reforms which at the end were very difficult to follow. He underlined the importance of making tools available for farmers so as to better manage their risks: this was crucial for the future.

3. Fertilizer file: presentation by Copa-Cogeca at the workshop at the end of April, views by DG Agri and results of the meeting 'AMIS';

A representative of Copa-Cogeca presented the issue of fertilizers for farmers, highlighting that increasing input costs and in particular escalating fertilizer costs eroded productivity gains and income and undermined the competitiveness of European farmers. He underlined that agricultural production was sensitive to changes in energy prices, either through energy consumed directly or through energy-related inputs such as fertilizer. The transformation of atmospheric nitrogen into ammonia was energy intensive. Natural gas accounted for 72-85% of ammonia production costs (Huang 2007). However, urea and in particular CAN prices have moved higher this season despite a more than 30% fall in gas and oil prices. Given the low income levels in farming, he considered that the EU Commission must examine why lower production costs have not been reflected in farm gate fertilizer price. He further emphasized that the fertilizer market lacked price transparency and that the industry concentration was stymieing competition. Finally, he called on the European Commission to investigate and take actions to address market concentration and the unbalanced power held by a small number of multinational input suppliers, particularly by the fertilizer industry. DG Competition must initiate a sector enquiry into the EU fertilizer industry given their ability to raise prices despite the significant fall in energy prices. He concluded by mentioning the analysis of the International Food Policy Research Institute (IFPRI) which pointed out that significant benefits were to be gained from increased competition in the fertilizer industry at a global and regional level.

A representative of DG-Agri presented the analysis by the Commission of the fertilizers and energy markets. He highlighted the relation between fertilizers market and the gas market. In particular the gas prices did not follow the evolution of oil prices. This decoupling was mainly related to the development of shale gas in the US where gas prices were the lowest in comparison with Europe and Japan. He confirmed the exchanges between Agri Commissioner and Competition Commissioner on this issue and the close examination of the evolution of markets as well as of the antidumping duties from Russia where the difference between domestic gas price and exported gas price is enormous.

A representative of DG-Agri presented the main results of the last meeting "AMIS" (Agriculture Market Information System) in May 2015. Established at the request of the Agriculture Ministers of the G20 in 2011, the AMIS is an inter-Agency Platform to enhance food market transparency and encourage coordination of policy action in response to market uncertainty. The initial focus of AMIS is on four crops that are particularly important in international food markets, namely wheat, maize, rice and soybeans (sugar is not considered). Recently and following the IFPRI analysis (IFPRI is part of the 10 organisations members of AMIS), the European Commission has requested to include fertilizers in the group of products covered.

A representative of the Confédération Paysanne stressed the impact of the development of shale gas in the US and warned against the TTIP.

A representative of Danish beet growers noted that in Denmark the use of N-fertilizer was not allowed in the fields. Therefore, the quality of Danish wheat was low.

A representative of Fertilizer Europe explained that the fertilizers price dynamic reflected the fundamentals of the market: i.e. the supply and the demand at global and regional levels. In addition, he mentioned the seasonal aspects of the demand concentrated on 3 months while the production is regular along the year. He referred to a JRC study in 2012 which concluded on the interrelation between the agri-commodities markets and the fertilizers market. Finally he stressed the very low part of European demand compared to the demand in emerging countries like India.

A representative of Copa-Cogeca thanked DG-Agri for the report on AMIS and the step forward undergone. He stressed the importance of this issue as it hit farm profitability. In view of the volatility of markets he requested smart policies.

A representative of EEB pointed out that this debate pulled the discussion away from the biggest challenge of sustainability. Therefore, the CAP should aim at saving fossil energy, avoiding off-ground livestock, giving incentives for carbon storage in soil through sustainable practices.

The representative of the European beet growers replied that European beet growers are responding very accurately to the debate on sustainability. She took this opportunity to inform the members of the CDG “arable crops” of the launch of the European Sugar Beet Sustainability Partnership (EU BSSP). Formed in 2013 as a collaboration between EU beet farmers (represented by CIBE), sugar producers (CEFS) and trade unions in the food and agriculture sectors (EFFAT), the Partnership exists to advance sustainability throughout the beet sugar industry in the EU. It developed a handbook on Good Practices to illustrate the sustainability practices in place in beet cultivation, sugar processing and the combined approach to social responsibility and dialogue with stakeholders. In particular referring to the discussion on fertilizers, the representative of the European beet growers illustrated the various good practices implemented in beet cultivation to tackle this issue. As a result, the quantities of fertilizers applied have been considerably reduced (halved in France) during the past two decades while the sugar yield per hectare has increased significantly (almost doubled in France) on the same period. She thus confirmed that the sector as a whole was taking this issue on sustainability very seriously and would be happy to provide the members of the group with the results very soon as they will be presented at the Expo 2015 in Milan. She invited the members of the group to visit respective websites of the partners so as to get information on and invitation to this event.

4. Information by the Commission on the Notice to sugar and isoglucose producers on carry-forward, published in OJ C152 of 8 May, page 3

A representative of DG-Agri presented the communication on sugar and isoglucose producers on carry-forward, published in OJ C152 of 8 May. This notice confirmed that carry-forward was maintained for the 2016/17 MY and that sugar and isoglucose carried forward to 2017/18 MY would be considered as sugar and isoglucose produced in 2017/18 MY, first year without quotas. He noted that the basic act n°1308/2013 did not allow taking any additional measures except general provisions allowing taking actions in case of market disturbances (see point 6 of the notice). He confirmed that the Commission would monitor closely the production of sugar and isoglucose during the last MY under the quota system.

The representative of the sugar manufacturers noted that this notice gave legal certainty regarding the non-payment of the penalty on 2016/17 out-of-quota sugar to be carried forward and this was good news. However, she added that all the previous interpretative notes on regulations that no longer existed only bound those who believed in them and that therefore it was clear that it would not be allowed to market more than quota sugar and quota isoglucose in 2016/17 MY for direct food outlets.

In line with this comment, the representative of the European beet growers asked for clarity regarding the accepted practice so far granted to isoglucose producers to market more than their quota (around 50 000 tonnes) in the same year of production. She asked whether this practice would continue to be accepted by the Commission or not.

The representative of sugar users asked about the production level in 2016/17 MY at which the Commission would consider intervening.

The representative of DG-Agri replied that there was willingness by the legislators to prolong the current quota scheme up to 30th September 2017. Therefore, there was no change in the basic act and no change in the interpretation by the Commission. He confirmed that the Commission will monitor the market situation but cannot express any level at which it would intervene.

The representative of the European sugar manufacturers stressed again that the current interpretation by the Commission regarding isoglucose carry-forward only bound those who believed in it. In addition, she mentioned that the Commission itself had forecast a doubling of isoglucose production (thus forecasting an isoglucose production in 2016/17 MY largely above what was allowed).

5. Information by the Commission on Private Storage: delegated act and implementing act

A representative of DG-Agri informed about the state of play of the “lisbonisation” of EU Regulation n°826/2008 on private storage. He mentioned that several meetings had taken place with MSs and that additional several months would be necessary to conclude this regulatory process. With regards to sugar, he confirmed that the stakeholders’ suggestions and concerns had been received. This would be further discussed with the Expert group on Sugar. In particular he mentioned the following points: the tolerance threshold fixed at 99% which manufacturers considered should be lowered, the impossibility by sugar manufacturers to segregate sugar under private storage physically mainly because of the size of the silos, the limits for applications for private storage to approved undertakings requested by sugar manufacturers which the Commission did not consider necessary. All these points would be further examined.

The representative of the European sugar manufacturers confirmed that their position was under examination by the Commission and insisted that only a specific tool adapted to the sugar industry could be operational and efficient. In particular, she confirmed that the physical segregation of sugar would not be economically viable and therefore would render this tool useless. Finally, she stressed that the sugar manufacturers were used to be controlled and were in favour of the maintenance of the definition of approved undertakings.

The representative of the European beet growers requested an appropriate timing for the publication of these acts, as it was important for the operators, including beet growers, to know sufficiently in advance, i.e. before sowing decision for 2016/17 MY what would be the modalities of the aid for private storage, in particular in view of the market crisis forecast by the Commission.

The chair of the group concluded by highlighting how important the management of risk and market risk was and therefore how important the related regulatory tools were for a sector which would exit from a quota system.

6. Opinion of the Group on the situation and prospects for the world market for EU sugar exports (Report to be presented by an expert designated by ASSUC);

A representative of the sugar traders presented the situation and prospects for the world market. He started by analysing the evolution of global balance and stocks, which weighed on world market prices which had reached new lows. He noted that global stocks were high at destination and subsidized at origin. On the one hand, he confirmed a slight decrease of minus 2.5% of global production for 2015/16 MY in comparison with 2014/15 MY. This included an increase of Brazilian sugar production of 3% (but a decrease of 1% of Brazilian ethanol production), a significant increase of Indian production (+16%) and of its exports (+23%) while arrears to be paid to cane growers had increased tremendously (near 200 billion Rs), and finally a significant increase of available Thailand exports (+39%). On the other hand, he mentioned that China's production had failed because of strong import incentives. He confirmed the resolution of the US-Mexico dispute which limited Mexican imports and together with smaller crops had helped to support the US premium. He concluded by mentioning the tight European quota market amidst depressed market prices. Therefore, the speculators remained short, the pressures from a strong dollar were leading to low commodities returns, but the big question was whether the El Niño forecast would influence sugar crops.

The representative of the European beet growers asked how it was possible that Indian cane growers had continued to grow cane while not having been paid and whether such big arrears would finally put pressure on production of the next MY.

The representative of the sugar traders confirmed that the situation in India was far from simple and that governments intervened in local markets. Indian cane growers hoped for intervention of the government to tackle this extraordinary situation.

A representative of the cereals producers asked about the link between US and Brazil ethanol production on the sugar world market.

The representative of the European sugar manufacturers asked the Commission to plan a presentation on the sugar policies in third competitor countries.

The representative of DG-Agri replied that this request would be taken into consideration and confirmed that the European Commission was regularly asking at WTO about support policies in different countries, of which recently in the Dominican Republic, in Madagascar, in India and in Thailand.

7. Presentation by the Commission on the sugar and isoglucose 2014/15 balance exchange of views

A representative of DG-Agri presented the evolution of market prices in the EU on the basis of the price reporting, the evolution of trade figures as well as the updated balance 2014/15. Average sugar market price amounted to €417/t in April 2015 with a deviation of 29 (against €419/t in March 2015 and €414/t in February 2015). Average industrial sugar purchase price returned to "normal" value at €341/t in April 2015 with a deviation of 52 (against € 437/t with a deviation of 2014 in March 2015). He informed about an update regarding ending stocks for 2013/14 at 2.013 Mt, leading therefore to an update of the 2014/15 beginning stocks increasing to 2.013 Mt (against 1.854 Mt). This would lead to quota ending stocks estimated at 1.069 Mt and out-of-quota ending stocks (carry forward) at 2.956 Mt.

Responding to questions by representatives of industrial sugar users, the representative of DG-Agri confirmed that because average price were weighted with quantities, when one MS

had big quantities to report for one month for industrial sugar it weighed particularly. This explained the figure regarding the average price for industrial sugar in March 2015. In addition, he confirmed that the estimated quantities for import licences by ACP/LDCs were 2 Mt for 2014/15 MY.

The representative of the Commission presented a very first estimate of the 2015/16 sugar and isoglucose balance, based on the figures of beet areas communicated by MSs and on average yield of the 3 last MYs. He explained the hypothesis made by the Commission with regards to processing under contracts and with regards to imports. On this last point in particular, the Commission cannot but consider at this stage the fulfilment of CXL TRQs which could at the end lead to an overestimate of the imports figure. Finally, this very first 2015/16 balance estimated ending quota stocks at 0.706 Mt and ending out-of-quota stocks at 1.275 Mt.

The representative of sugar users commented that it was a good news that beginning stocks for 2014/15 MY had been revised upwards as this issue of stocks was important. He noted that the Commission estimate of imports was too optimistic and enquired when the Commission would envisage temporary measures as CXL TRQs will be close to zero. He wanted to be sure when the Commission would implement such measures and asked whether the Commission could also restrict the sugar exports.

The representative of the European beet growers replied that the suggestions by the representative of sugar users were fully out-of-scope in view of the market situation and highlighted that responding to market drivers by the operators, including sugar users, was normal so as to rebalance the market. She confirmed that European beet growers considered that no temporary measures were necessary for both 2014/15 and 2015/16 MYs. In addition, she stressed that the 2015/16 production would allow supplying sufficiently the quota and the out-of-quota markets and that sugar users would not have any problem of supply as either domestic or EPA/EBA sugar would be available depending on demand.

The representative of the European sugar manufacturers expressed their strong concerns on the way the Commission was only looking at the differences between world and European market prices. She also pointed out that sugar users had a key position: if they wanted/needed to import CXL sugar they could find it at its price. Referring to the recent upward adjustments of stocks for 2013/14 she concluded by saying that it was too early to decide on measures for 2015/16 MY.

8. Information by the Commission on the outcome of the expert group on 26th March

A representative of DG-AGRI gave a short report on the discussions during the Sugar Expert group held on 26th March. The Commission detailed the balance sheet as well as the impact assessment made in 2014. A presentation by one MS was made on the costs of production on the basis of LMC figures. A discussion had taken place on it. The Commission informed the experts about the voluntary coupled support (VCS) implemented by 10 MSs. A discussion took place on this issue, however, the Commission had very limited possibilities to intervene on it because it was the own choice of MS. The Commission confirmed that it would monitor closely their implementation so that the criteria were respected. Provisions for post-2017 were on the agenda of this meeting. In particular on the price reporting scheme post-2017, the Commission had received a contribution from one MS and the positions of stakeholders. With regards to notifications on production and stocks, the Commission was analysing the level of detail necessary to achieve sufficient transparency on the market. The Commission also presented the state of play of concluded and ongoing FTAs (similar presentation as the one made at the CIBE Congress on 3rd June 2015). Finally, one MS

requested to discuss the issue of refining. On this point, the position of the Commission was clear and referred to its impact assessment.

The representative of the European beet growers confirmed their position in favour of the maintenance of the price reporting scheme, including its modalities which were based on data collected from undertakings and that made a distinction between direct and indirect uses. This was a necessary condition in order to apply correctly the provisions of Article 125 and Annex X of Regulation n°1 308/2013. Furthermore, European beet growers considered that this scheme should be improved, in particular by including isoglucose average market prices. In addition, the establishment of a sugar and isoglucose balance sheet was absolutely necessary to ensure appropriate and reliable information on the markets.

The representative of the yeast industry pointed out that in view of the historical reform to come, it was crucial having continuity in monitoring market tools to ensure sufficient transparency. He stressed the importance of maintaining a difference in the monitoring of prices of sugar for direct uses and for indirect uses.

The representatives of the European sugar manufacturers explained the need to keep certain definitions (sugar, isoglucose, approved undertakings), to keep export and import licences, as well as to get reliable information on the market balance. This was particularly crucial in case of disturbances (the monitoring of CXL and Balkans sugar was important). However, with regards to the price reporting, sugar manufacturers favour a reporting on a unique average price in particular because the current figures on industrial prices were not very reliable.

The representative of the Confédération Paysanne asked for more information on VCS. He added that if farmers did indeed have the choice for their crop rotation, it was not their aim to let sugar cooperatives in which they had invested to be short on supply. Therefore, the freedom of farmers was limited in that sense unless there were other alternatives.

The representative of the sugar users asked whether in the event of operators using futures market this could alter the information of the price reporting.

The representatives of the European beet growers pointed out the differences between price reporting and futures market. The possible wider use of futures market (existing or envisaged) could be an additional tool for growers and manufacturers to manage market and price risks in the future. This was completely different from the price reporting based on data collected from undertakings which allowed growers to get indications of the economic situation which the manufacturers had faced during a MY. These indications were firstly essential for growers in their negotiations with manufacturers and for an appropriate implementation of the contractual scheme defined in the basic act and secondly essential for the monitoring of the market.

The representative of the European sugar manufacturers added that the price reporting scheme was essential for the triggering of the aid for private storage.

A representative of the sugar traders informed about the recent position of ASSUC on the issue of sugar futures market. The creation of EU domestic white sugar futures market was no longer promoted by ASSUC. However, the topic is still pursued by companies. Indeed, futures contracts could only be a useful tool if operators (buyers and sellers) used it.

A representative of sugar traders asked for more clarity regarding EPA/EBA rules and expressed his dissatisfaction that this was not kept on the agenda of this CDG meeting.

The representative of DG-Agri explained that two acts were under preparation: a delegated act which had passed inter-services consultation had been adopted on 22nd June and been sent to the European Parliament and Council; and an implementing act which had also passed the inter-services consultation and was waiting for the delegated act to be adopted by the legislators. He reckoned that this procedure was long but confirmed that basically there was no change because it consisted in a prolongation of the current provisions. He confirmed that after 2017 no licensing regulation from ACP sugar imports was foreseen.

9. Information and follow-up from the Commission on the Canadian decision imposing anti-dumping duties and countervailing measures on EU sugar exports and Egyptian safeguard investigation & provisional measures on white imports (DG TRADE)

A representative of DG-Trade explained the situation regarding the Canadian investigation. A review had been initiated in February 2015 and the procedure had reached the following 2 steps: firstly, a decision would be taken tomorrow by the Canadian administration to decide whether or not there was still a dumping subsidisation. The explanation was awaited for 3rd July. Secondly, in the (probable) event this decision was positive, an investigation on the injury to the domestic industry would be done (deadline end of October) ¹.

The representative of the sugar traders asked to be part of the interested parties as it was for the Egyptian case along with European sugar manufacturers.

The representative of the European beet growers asked how it was possible after the conclusion of the EU-Canada CETA that such measures against EU exports should be taken. Furthermore, she expressed concern in the light of the tension on the sugar world market and the increased interventions of governments in third countries to support their domestic industry, on the possibility of the EU to increase its sugar exports in such a context, cornerstone of the 2017 reform.

The representative of DG-Trade replied that whatever the result, the European Commission could ask for a review in 2017. She also noted that trade defence instruments were part of WTO rules and available to all third countries.

The representative of the Commission informed about the Egyptian safeguard investigation and provisional measures. On 15th April 2015, Egypt notified the WTO's Committee on Safeguards that it would initiate on 16th April 2015 a safeguard investigation on white sugar

¹ The review investigation by the Canada Border Services Agency to determine whether the expiry of the orders is likely to result in the continuation or resumption of dumping and/or subsidizing of the goods had now been completed on 18th June, pursuant to paragraph 76.03(7)(a) of SIMA, the President has determined that the expiry of the orders:

1. is likely to result in the continuation or resumption of dumping of refined sugar originating in or exported from the United States of America, Denmark, the Federal Republic of Germany, the Netherlands and the United Kingdom, and
2. is likely to result in the continuation or resumption of subsidizing of refined sugar originating in or exported from the European Union.

A *Statement of Reasons* that contains additional details concerning the determination made by the President will be issued within 15 days. The *Statement of Reasons* will be posted on the Canada Border Services Agency's Web site at: www.cbsa-asfc.gc.ca/sima-lmsi/er-rre/menu-eng.html.

The Tribunal will now conduct an inquiry to determine whether the expiry of its orders is likely to result in injury or retardation to the Canadian industry, and has announced that it will issue its decision no later than October 30, 2015

and apply for a maximum of 200 days a provisional tariff protection (20%) permitted under the WTO Agreement on Safeguards. The EU had submitted its reply in coordination with CEFS and ASSUC in the beginning of June. A public hearing had started and would last 2 months. However, the WTO rules were unclear on the timetable.

10. AOB : information by the Commission on next meeting dates for 2015 where sugar items will be on the agenda

The Commission gave the dates for the next meetings on sugar (30th October, CDG arable crops sugar and energy and 11th December, CDG arable crops sugar and starch).

The Commission underlined that it was difficult for DG-Trade representatives to attend this meeting for only a few minutes and requested questions to be sent before so that the Commission could give written replies in case it could not be discussed on the day of the meeting.

The chair recalled that European farmers' representatives do a long journey from their farms to Brussels to attend this meeting and be there on time, therefore he asked the representatives of the Commission to do the same, that is to participate in person in the meeting (there cannot be a debate without the representative of the Commission in charge of the topic) and do make the effort to be on time.