

FINAL REPORT FROM THE CIVIL DIALOGUE GROUP ON ARABLE CROPS, HELD ON 11/12/2015

PART ONE: SUGAR

1. Approval of the agenda and reports of the last meetings of 22/9/15 and 4/11/15; meeting dates for 2016.

The agenda and the report were approved. The dates for 2016's meetings of the Civil Dialogue Group on Sugar were announced as 2 March, 3 June, 7 October and 13 December from 9:30 to 13:00.

2. Opinion of the Group on the situation and prospects for the world market for EU sugar exports.

This year is the first deficit year in 6 years. Stocks are at their highest level since 2007/08. The price of sugar is rising and as of 11/12/15 trading at 15 cents/pound; it is therefore no longer tracking the Commodity Research Bureau (CRB). Speculators are betting on higher sugar prices. The influence of speculators in the sugar market has been increasing since 2009: they now represent between 25 and 30 per cent of open interest in the New York sugar futures market.

Brazil: price of sugar in BRL highest since 2011 due to the currency's depreciation. Sugar mix is to shift towards sugar more in 2015/16 than in recent years. But rain in Brazil is complicating harvests and will result in lower Total Recoverable Sugars (TRS) for the 2015/16 crop. Brazilian mills crippled by debt valued in USD. While the capacity of Brazil's mills after closures will still be c. 630 million tonnes of cane, this will not be enough to meet the increase in global consumption expected in the coming years.

India: very high stocks (at least 20 million tonnes). The Indian government recently announced a new subsidy to be paid directly to farmers but conditioned on mills meeting 80 per cent of their export targets. Where a mill meets its individual target, farmers will be paid an additional INR 45/tonne, i.e. c. 20 per cent of the federally-set Fair and Remunerative Price that millers are obligated to pay to farmers for each tonne of cane. This measure can be considered an export subsidy. Indian exports are limited *inter alia* by the fact that the rupee has not depreciated significantly.

Of note is that the Thai baht and Guatemalan quetzal have not depreciated either.

China: prices remain higher than world market prices and could rise further. However, a strict licencing system means that much sugar is being smuggled into the country, mainly from Southeast Asia. China's stocks are high, but can be conceived of as a 'strategic' hedge against future volatility. Excluding China, stocks in 2014/15 were lower than in 13/14, a trend that is set to continue into 2015/16.

EU: lower prices are contributing to lower imports and stock drawdown.

Freight remains cheap due to low energy prices, which will encourage trade.

The Commission queried whether Brazil's closed mills could be re-opened were world sugar prices to recover. As a follow-up question, the Chair asked what becomes of cane used as a

feedstock for such mills. ASSUC responded that such cane is generally diverted to other mills, and that closed mills may well resume operations were world sugar prices to recover. CIBE asked about ASSUC comment that strategic stocks in China would not be usable. A beet growers' representative enquired after ASSUC's sources of statistics and method. ASSUC responded that it regularly compares notes with Platts, Green Pool and the International Sugar Organisation.

3. Presentation by the sector of the EU beet sugar sustainability practices.

Representatives from CEFS and CIBE presented the EU Beet Sugar Sustainability Partnership (EUBSSP). The purpose of the partnership is to promote sustainability through robust good agricultural, industrial, social and environmental practices in the sector, in dialogue with stakeholders. The Good Practices reflect the achievements of beet growers and sugar manufacturers together with their workers, and serve as a basis for dialogue on future progress towards sustainability. The partnership was presented at the Milan Expo in September and has a dedicated website, which can be accessed at <http://www.sustainablesugar.eu/>. CEFS and CIBE expressed their openness to engage with other stakeholders in the partnership.

The representative of Via Campesina welcomed the presentation and stressed how important it was to highlight the work of farmers and people behind the traditional picture of the beet sugar sector. He pointed out that beet was a high efficient crop and requested additional details.

The EEB welcomed this presentation and debate on essential issues and requested more details and was referred to the website of the EUBSSP, where detailed documents and issue briefs can be found.

Beelife inquired whether there were quantitative indicators in the report on good practices.

SACAR expressed its support for the initiative and the role of sugar traders in promoting sustainability through a 'one up, one down' approach: i.e. ensuring that neither direct suppliers nor direct customers are engaged in irresponsible activities.

A member of the FoodDrinkEurope delegation representing sugar users asked about other initiatives by food companies on this issue and called for sugar users to be brought into the partnership. CEFS and CIBE reiterated their openness to engage with other stakeholders in the partnership.

A member of Fertilizers Europe highlighted the role of appropriate use of fertilizers.

The Commission also welcomed this initiative and encouraged the sector to further provide such information and discussion.

4. Presentation by the Commission on the updated sugar and isoglucose 2015/16 balance – exchange of views

The Commission made clear that the balance presented for 2014/15 was a 'simulation' and not an official balance sheet to supersede the October balance sheet.

Production, estimated at 17.5 million tonnes, is 400 000 tonnes more than what was projected in October.

Biggest change is quota ending stock at 1.438 million tonnes based on MS notifications (vs. 1.045 million estimated in October). 8 Member States have so far communicated their production statistics, but 10 per cent of production has yet to be validated.

Overall, imports for MY 2014/15 are at 2.845 million tonnes based on COMEXT data.. ACP import licences came to 2.126 million tonnes in 2014/15. CXL imports were low in MY

2014/15 (147 000 tonnes), including zero use of country allocated quotas from Brazil, Cuba and Australia. Imports entering the EU under inward processing (IPR) were 191 000 tonnes of raw and 100 000 tonnes of white in MY 2014/15. [note that data on IPR do not appear in the balance sheet]

As a result of the higher ending stocks quota sugar consumption was put at 16.673 million tonnes, down from 16.997 million tonnes in the October balance sheet. Out-of-quota consumption was revised up from 2.493 to 2.599 million tonnes, due to more bioethanol production, largely in France.

For 2015/16, a reduction in surfaces of c. 14 per cent will result in lower production. Commission estimates 14.948 million tonnes of production. Lower production compared to quota in certain Member States/undertakings will mean between 290 and 350 000 tonnes of travail a facon can be expected.

Whilst ACP/LDC licence applications are down on last year but it is still early in the campaign and 2 million tonnes of ACP/LDC imports expected during the MY; The Commission expects the CXL suppliers to fill their TRQs for MY 2015/16 and has set CXL import forecast at 0.65 million tonnes; 0.24 million tonnes of TRQ imports (CA, Colombia, Peru); 0.02 million tonnes from Ukraine; 0.22 million tonnes from Balkans/Moldova.

CEFS, CIBE and ESRA greeted the revised simulation, according to which MY 2015/16 ending stocks will be higher than predicted. However, CEFS, CIBE and ESRA expressed concerns about the EU sugar price and cautioned against temporary measures that could destabilise the EU sugar market. Such measures could put further downward pressure on the EU price and discourage imports yet further. ASSUC stressed that exceptional measures must not hang over the market, since this could discourage supply. CEFS and CIBE expressed strong concerns about unsustainable sugar prices, as evidenced by the EU price reporting scheme.

Sugar users were concerned by the uncertainty surrounding CXL imports and called on the Commission to consider temporary measures. CEFS stated that uncertainties also surround consumption and disappearance, and that it is impossible to know for certain which way the market will turn.

The Commission made no promises on temporary measures and will undertake nothing as long as there is evidence that there is enough sugar on the market. Less than 1 million tonnes of ending stocks would be nevertheless a cause for concern for the Commission in the light of what happened in 2010/11. The Commission disagrees with the statement that additional supplies "could put further downward pressure on the EU price." Notably in 2011 and 2012 the main criticism on the Commission's measures was that it did not lead to lower prices.

CIBE noted however that the context is extremely different today as in 2010/11; indeed the abolition of sugar quotas will take place at the end of the next MY 2016/17 and all operators are preparing this change; most of them have announced that they will increase their production. In addition, we all know that the full impact of temporary measures will be felt after several months and over a long period. The Commission should then remain extremely careful with market measures and in particular the market should not be manipulated at the same time quotas will be abolished.

Copa-Cogeca noted that production in the UK will probably be higher than the Commission's forecast, at c. 980 000 tonnes.

SACAR enquired about the transitional supply measures for Croatia. COM replied that negotiations are still underway at the WTO.

Cofalec pointed out that it was always necessary to maintain a certain level of carry forward when the out-of-quota fresh production was not covering the entire out-of-quota uses.

On isoglucose, the Commission was clear that it will intervene should production increase too much in advance of 2017.

5. Information by the Commission on the progress of the process of single CMO delegated and implementing regulations on sugar following the entering into force of Single CMO No 1308/2013 including on private storage and price reporting.

Nothing new to report on private storage and price reporting since the last meeting. No date was given for the drafting of a Delegated Act to supersede Regulations Nos. 951/2006, 952/2006 and 967/2006, since not all Member States have yet responded to the Commission's request to comment that was issued at the Expert Group meeting of 29 October. Discussions on a Delegated Act are to take place in 2016.

6. Information and presentation by the Commission on projections on the outlook for the sugar market 2015-2025.

The Commission presented the medium-term outlook for the sugar and isoglucose sectors included in the report "Prospects for Agricultural Markets 2015-2025". The medium-term outlook assume average weather conditions and a given set of macroeconomic developments (e.g. exchange rates, oil prices, GDP growth). An uncertainty analysis is carried to take into account variability in weather and in macroeconomic developments. Prices for sugar are expected to remain low; beet prices are expected to decrease. Isoglucose is expected to take some market share. The potential effect of a 50 per cent increase in this share of isoglucose use was also presented.

Copa-Cogeca queried the current production capacity of isoglucose in the EU.

CIBE noted that the indication given by this outlook regarding future beet price could serve for sugar operators to consider future beet price basis at this very low level. CIBE made clear that 25 EUR/tonne of beet does not allow to cover the cost of production in most countries, and that the medium-term forecast was therefore of concern to growers. CIBE reiterated therefore that it was crucial for the legislation to confirm the right for growers to negotiate collectively written agreements in the trade and contracts including the sharing of the sugar value between growers and manufacturers.

FoodDrinkEurope enquired about the outlook for isoglucose feedstock and was referred to the corn outlook in the report "Prospects for Agricultural Markets 2015-2025".

Copa-Cogeca enquired about coupled direct payments. The Commission responded that the aim of such payments is to limit the decline in production in vulnerable rural areas.

PART 2: STARCH

1. The agenda was adopted.

2. Coupled support

DG AGRI detailed the decisions notified by the Member States by 1/8/2014, which were implemented from 1/1/2015. Across the whole of the EU, coupled support for potato starch is expected to cover 58.145 hectares, with an average annual budget of €17.7 million. Coupled support fell into the blue box at the WTO. The Member States that apply coupled support for potato starch are the Czech Republic, France, Latvia, Poland, and Finland. France and Poland represent 80% of the concerned area, whereas Poland and the Czech Republic

represent 67% of the total budget allocated, with the average level of support standing at €300/ha. As MS shall communicate to the EC by 15/9/2016 the area supported, payments granted and number of beneficiaries in 2015, it will be possible to ascertain to what extent the Member States have effectively implemented the measures. DG AGRI stressed that recoupling was entirely the responsibility of the Member States not being subject to EC approval. The EC assessed the overall legal compliance of MS decisions particularly vis-à-vis maintaining current levels of production and related WTO blue box requirements.

The Member States could select the most favourable year between 2009 and 2013 as basis to establish their maximum supported area. The area concerned covers approximately 1/3 of the total EU area, which itself was estimated to be 180,000 ha. Copa and Starch Europe expressed their concerns about potential distortions to competition, as 5 of the 10 producer Member States had decided to grant coupled support.

CIBE asked some clarifications regarding the coupled support for potato starch in relation to the total surface and volume in Europe.

Simplification of the coupled support system:

The EC has tabled regulation on simplification, adopted on 30/11/2015, which is currently being scrutinised by the Council and the Parliament. The aim is to allow any Member State that so wish to transfer unused funds between coupled support measures and to adjust the amount of support on the basis of economy of scale (e.g. size of farms). This proposal does not include demands of some Member States that had put forward additional criteria for adjusting the amount of support, such as the age of the farmer or others.

The Member States may review their decisions by 1/8/2016, for entry into force from 1/1/2017.

3. Market situation

An expert on agricultural production explained how the surface area had changed in the main producer countries. Copa informed DG AGRI that starch potato production was not a profitable activity. Surface area had fallen considerably in Germany, where there was no recoupling. In response to a question posed by Starch Europe, Copa answered that the crop diversification measure under greening should only have a very limited effect on maintaining starch potato production.

4. Starch production statistics and Starch Europe's priorities

The Starch Europe representative gave a PowerPoint presentation on the sector. Production was stable. She mentioned bilateral agreements, the MiFID Directive, the bioeconomy, the circular economy, and that the Chinese market had closed.

In response to a question posed by Copa, Starch Europe replied that the large number of technical outlets and sources rendered it impossible to provide a more detailed breakdown.

CEFS asked DG AGRI to set up a starch dashboard and to move away from the simplistic idea that isoglucose is not competitive enough because of sugar quotas. CEPM supported the joint Starch Europe/Copa-Cogeca/ePure position on the TTIP and agreed that the level of competition in the EU stood in stark contrast with that of the USA. CEFIC and Coceral mentioned that maize prices in the USA and the EU were similar, and that what stymied maize imports was rather legislation on authorising GMOs.

5. Trade defence instruments introduced by China

Anti-dumping duties would remain in force until 5/2/2018, and countervailing duties until 16/9/2016.

6. A.O.B.

The next meeting would be held on 13/12/2016.

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