FINAL MINUTES
Civil Dialogue Group – Arable Crops, Sugar and Hops, 2 March 2016

Sugar

1. **The agenda was approved. The report of the last meeting of 11 December 2015 was adopted.**

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

ASSUC presented the situation and prospects for the world sugar market.
World to be in deficit this year. But high stocks from six years of surplus mean that prices have not yet reacted accordingly.
Hedge funds moving from longs to shorts as the expected tightness has not materialised.
A weak Brazilian Real has been pressuring sugar prices.
El Nino: a risk factor for sugar production (heavy rains hindering crushing in Brazil, poor monsoon in India has hit production, effects on Australia, Thailand, Indonesia).
Brazil: production in 15/16 muted due to high ethanol prices. Production to be up by c. 3mmt 16/17 due to higher sugar content in cane and better returns for sugar than ethanol. Extended 15/16 crop and early start for 16/17 crop expected (possibly as soon as 2nd week of March), as crushing capacity has bottlenecked and mills seek to extend their campaigns. Tight ethanol supply due to strong domestic demand has supported sugar prices. Ethanol prices expected to fall with the beginning of the new crop as supply is increased.
China: white sugar import surge a major driver of the white sugar market. New smuggling routes set up to bring sugar into the country through Myanmar. Chinese demand a driver of white premium spikes and a surge in Indian white sugar exports to Myanmar.
India: production ahead of normal for 15/16 but expected to be lower than forecast due to weak monsoon. Further decrease in production expected for 16/17, with an expected deficit of c. 2mmt (the first since 2009). Future exports expected to be limited, but high stocks remain.
Thailand: production for 15/16 to be lower than forecast.
EU: low production in 15/16. Production to increase in 16/17. Delivered prices increasing; EU import margin favourable for CXL imports.
Recovery of production currently expected in 16/17 based on average, but deficit to remain for 2nd year in a row (albeit smaller than 15/16)
Key short-term drivers: early start to Brazil's new cane crop; Indian pace of production 15/16
Mid-term drivers: Chinese imports; Brazilian ethanol market in 16/17; Indian production 16/17

CIBE asked about the use of export refunds by India in particular in the light of the Indian white sugar exports boom to China by the end of 2015. CIBE stressed the size and speed of the Brazilian currency depreciation which reflects the difficulty for EU producers to compete with such competitor.
CIUS asked about the capacity of the world production to cope with growing demand in the future.

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

December 2015 EU white sugar price at 427 EUR/tonne, vs. world white sugar price (London No. 5) of 389 EUR/tonne.
Industrial sugar price at 334 EUR/tonne for buyers and 326 EUR/tonne for producers.
Average import prices at 447 EUR/tonne for whites and 463 for raws (small volume imported for raw for refining at 385€/T but 699 EUR/tonne for brown speciality sugars).
Import figures presented. Out of CXL quotas, only Brazil's sub-quota remains empty; according to reports, 200-300,000 tonnes have been contracted from Brazil's North-East. These quantities will show up in the publication of the licence applications in mid-March.
Figures for inward processing presented. Commission clarified that gap between imports (291kt tonnes in 14/15) and exports (71kt in 14/15) is mainly due to the fact that the difference is included in processed products and to a lesser extent due to the time lag between importing and processing sugar into goods for export. It is assumed that the 71 kt is raw sugar which is toll refined and re-exported.
5.3kt of 400kt industrial sugar import quota (1.3 per cent) so far allocated.
Isoglucose production in 15/16 similar to 14/15.
No new Balance Sheet from the Management Committee of 25 February. Balance Sheet 'simulation' from 28 January.
Imports (as such) forecast at 3.18mmt, assuming CXL quota filled and 2.0 million tonnes of ACP /EBA imports
Consumption forecast at 17mmt, based on 5 year average. This consumption level is questioned.
Quota ending stocks revised down by 0.165mmt to 0.76mmt and out-of-quota ending stocks lowered to 0.61mmt with the export of the second tranche of out-of-quota sugar (-0.7mmt). Maximum CXL may be missed by 50KT and ACP by 100KT

A representative from FoodDrinkEurope called for market measures to increase sugar supply. The purpose is to avoid the market to be to be short of sugar during summer. It was explained that the users may face 3 types of situation before the end of the campaign: 1) they have bought for the full campaign and are covered, 2) they bought but their needs are increasing and they need to buy again before the end of the campaign 3) they are used to buy spot and buy during all the sugar campaign. This is why some buyers may buy until end of the campaign and face the deficit when it comes.
CEFS and CIBE cautioned the Commission against disturbing the market in the run up to the end of quotas. CEFS and CIBE were firm in their request that the Commission must not reward speculators against EU growers and sugar manufacturers In particular, CIBE considered that growers who cannot anymore adjust their beet area for 2016/17 should not pay for those who have failed to contract sugar or pay for the benefit of speculators. In the light of the current context in the farm sector this would be unacceptable for farmers. CEFS added that the price levels seen for more than one year now and shown by the EU price reporting scheme are not sustainable. Equally the level of the world market prices are not reflecting the production costs of most sugar producers.

4. 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 n°1308/2013 (import licences, private storage, price reporting and balance sheet, sugar sector agreements)

Presentation by the Commission of the legislation on import and export licences. Accordingly, exports are expected to be monitored by the TAXUD Surveillance System from 1 October 2017, as are preferential imports (imports entering the EU without TRQs).

Presentation by the Commission of the working document from the Expert Group of 25 February regarding price reporting and post-quota provisions. Commission asks for input from stakeholders. Participants stressed that a high quality balance sheet is dependent on solid definitions and caution against over-simplification. CIBE recalled how important it was to maintain appropriate definitions so as to provide a high quality balance. CIBE considered that it was important to maintain information (price reporting and balance sheet) on isoglucose. The representative of molasses traders asked about the maintenance of the calculation of the representative price for molasses.

CEFS requested a presentation from the Commission to explain the TAXUD surveillance system to the Civil Dialogue Group.

5. Information by the Commission on the outcome of the expert group on 25th February 2016

Commission presented the remaining item discussed during the Expert Group: the 2015-2025 medium-term prospects report. Commission stated that lower prices are expected due to increased production in the post-quota period. Commission stressed that where prices fall below production costs, production will fall back ("a market without quota is not for everybody") and at some point prices will stabilise. Commission noted that consumption of sweetener is expected to remain stable, which means a decline for sugar in the post-quota period, as isoglucose takes a larger share of the EU sweetener market.
CIBE and CEFS expressed concerns that the low prices forecast by the medium-term prospects report could give rise to economic and social consequences in the sector. CIBE noted how challenging and difficult it will be to balance the market. This was echoed by CEFS which stated that the Commission should not underestimate the impact on jobs and possible factory closures if such so called "benchmark" would happen to be the real situation.
CEFS asks for explanation about the private storage mechanism (but did not get an answer)

6. Information by the Commission on the follow-up of issues on anti-dumping measures implemented by Egypt and Canada

Egypt: safeguards termination published in February. Duties provisionally collected to be reimbursed shortly. ASSUC on behalf of the whole sector thanked the Commission for the successful work and cooperation on this matter and eluded to the risk of more cases especially with the end of the quota limit.

Canada: anti-dumping and countervailing duties extended until 2020.
Commission informs that the end of the EU sugar regime may be an opportunity to request an interim review regarding Canada's countervailing duties. In order, to also remove the remaining (anti-dumping) duties, a parallel interim review would have to be request regarding those duties.

7. Information by the Commission on the agreement of the Tenth WTO Ministerial Conference, Nairobi and follow-up of responses by India, Thailand and Brazil on sugar issues raised at the WTO Committee on Agriculture

Commission presented the four parts of the Ministerial Decision on Export Competition: export subsidies; export financing instruments (including export credits); International food aid; state-trading enterprises.

Regarding the Ministerial Decision, Commission emphasised the derogation granted to out-of-quota sugar exports under footnote 3 and emphasised that there is no need for a change to the Single CMO since Art. 196 limits the granting of export refunds “within the limits resulting from international agreements concluded in accordance with the TFEU”.
Export subsidies subject to deadlines for elimination (immediate for developed countries [except Canada, Norway and Switzerland: 2020 for some processed products, pigmeat, dairy preparations]; 2018 for developing countries, 2023 for developing countries as regards marketing and transport subsidies under Art. 9.4 of the Agreement on Agriculture.
Regarding export financing, the tendering period is now limited to 18 months and export credits must be self-financing. Other export financing considered to be an export subsidy and therefore subject to the export subsidy elimination deadlines set by the Ministerial Decision.
Regarding food aid, restrictions placed on in-kind food aid and monetisation (e.g. requirement to analyse local market situation, sell via an independent entity via a public tender and examine the local diet and normal consumption levels). No impact on EU since EU food aid is always given in cash.
Regarding state-trading enterprises, minimal outcome but possible implications for China and Russia as regards the transparency requirements.

Regarding the Agriculture Committee, Commission was clear that it only brings cases before the Dispute Settlement Body where it is certain of success. Success not assured in the case of Brazil, Thailand and India.
Commission continues to bring questions to Brazil (REINTEGRA), India (export subsidies) and Thailand (sugar regime) in the Agriculture Committee.
CIBE and CEFS encouraged Commission to challenge the sugar regimes in WTO Agriculture Committee.
Participants informed the Commission of Brazil’s intention to challenge Thailand on its sugar regime at the WTO.
CIBE noted that these third competitors which are key exporters are obviously either not respecting their WTO commitments or circumventing them by other trade distortive subsidies. Therefore, CIBE considered justified that the EU Commission should exclude sugar and ethanol of the trade negotiations with Mercosur, Thailand, India and Mexico in the ongoing or coming talks.

Hops

1. **The agenda was approved. The report of the last meeting of 18/2/15 was adopted**.

2. **Exchange of views on production year 2014/15 and the state of the market in 2016**

Production figures not communicated by all Member States (notably Hungary, UK, Romania); in such cases, figures are taken from the international hops producers organisation. Production for 2014 at 53,217 tonnes including

quantities delivered under contracts at 43,939 tonnes, at an average price/kg of 4.83 EUR and

other quantities delivered at 9,016 tonnes, at an average price/kg of 4.78 EUR.

Alpha acid production up 35 per cent in 2014, to 5,033 tonnes.

Areas down to hops up 2 per cent in 2014 vis-à-vis 2013 to 27,152 hectares.

Most production in Germany, followed by Czech Republic, Slovenia, Poland, UK.

EU hops production fluctuating since 2007. Drop in 2013 due to destruction to German crop owing to storms.

For 2015, areas have increased again slightly on 2014 to 28,003 ha, but due to bad weather conditions (to hot) in the centre of Europe, production is expected to be lower at 40,481 tonnes and alpha production much down at 3,398 tonnes.

For 2015, alpha acid content expected to fall to 8.4 per cent, from 9.5 per cent in 2014.

Average prices under contract are stable since 2007 with slight increase recently; continuous increase in average prices on spot market from a very low level in 2011. Supply of acid alpha is lower than demand, consequence of low production in 2013 and in 2015. This push prices up.

No change in the proportions of hop varieties under cultivation since 2009

Hop exports expected to reach an all-time high in 2015, at 29,847 tonnes equivalent cones (215 million euros). Imports forecast at 7,526 tonnes equivalent cones for 2015 (70 million euros).

Members shared their production prospects for 2015/16. Drought and high temperatures have hit production in several members, including Austria, Slovakia, Poland and Germany.

For the marketing year 2016/2017, production would increase and prices would be stable.

3. **Information by the Commission Services on the progress of the process of Single CMO delegated and implementing regulations on hops and hops products**

Commission Services presented the timeline of the Delegated and Implementing Acts in the process of being drafted.

The Commission Services outlined the timeline of the Delegated Act on marketing (Single CMO, Reg. (EC) 1850/2006 and 1295/2008). The Commission services noted that certain Member States see the current certification arrangements as an administrative burden. However, the Commission Services announced that a horizontal study of the marketing arrangements of all sectors will be undertaken before any such act can be finalised. Members stressed that they are happy with the current certification arrangements, which work well and differentiate the EU hops sector from the US.

A review of the regulations on data communications on production and prices is ongoing. Commission Services requests input, suggestions for merging and simplifying provisions of Reg. (EC) No 1557/2006.

Regarding the Delegated Act on recognition of producer organisations to update Reg. (EC) No 1299/2007, the Commission Services noted that the 60 hectares, seven growers limit may be too restrictive in light of concerns raised by Belgium, Slovakia. Several participants

agreed. A representative of Copa in France agreed but cautioned against lowering the limit too much, which would undermine the point of its existence.
Commission Services were clear that Reg. (EC) No 738/2010 on rules on aid to producer organisations in Germany does not need to be changed since it regulated a very specific case.

4. Information made by the Commission on establishment and new developments from the minor uses coordination facility

Commission referred participants to a written contribution on the establishment of new developments from the minor uses coordination facility (see meeting documents).

Disclaimer

"The opinions expressed in this report represent the point of view of the meeting participants from agriculturally related NGOs at Community level. These opinions cannot, under any circumstances, be attributed to the European Commission. Neither the European Commission nor any person acting on behalf of the Commission is responsible for the use which might be made of the here above information."