<u>Final report</u>
<u>Civil Dialogue Group – Arable Crops, Sugar and dried fodder, 3 June 2016</u>

Sugar

1. The agenda was approved. The report of the last meeting of 2 March 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 enter first deficit in six years. Whereas production has always fluctuated over the years, consumption has increased steadily. Result: global stocks will fall, **but** sugar trade flow surplus will remain (i.e. there will still be more sugar for sale than sugar in demand), since users are at present not willing to pay listed prices.
Raw and white sugar prices are increasing again after a long negative trend since 2008. Speculators continue to favour long positions, which are higher than ever (c. 300,000 lots). But since speculators neither consume nor produce sugar, their impact on the market will be neutralised at a later stage. Since Brazil is shorting a lot of sugar, there is less selling potential on the market.
Brazil: a weakening BRL has meant that raw sugar in BRL has risen strongly over the past year. The advantage of this weakening for Brazilian producers is more than enough to offset any competitiveness gains on the part of European sugar producers. Rains in Brazil are widely perceived bullishly, since they make harvesting difficult. However, rain now will boost sugar production in 2016/17. More cane is being allocated to sugar (vis-à-vis ethanol) this year than last year due to higher sugar prices.
Thailand: dryness has negatively affected production. There is much less sugar available from Thailand, which has helped to increase the global deficit and support world prices.
China: a key player in world sugar consumption. The profitability of out-of-quota sugar imports has gone down, as the world market price has risen but domestic prices have stagnated. Much sugar has been smuggled into the country over the past year, much of it from India (via Myanmar), but the government has tried to crack down on the practice.
India: the 2016 monsoon is critical for yields in 2016/17 and for planting for the 2017/18 season. An increase in the Indian domestic price means that India could import 3 million tonnes of sugar (conditional on a reduction of import duties).

CIBE asked if the world sugar market was a bubble market, since futures prices are well above what is being paid for physical sugar. CIBE noted that ethanol may still be preferable for many producers.
Cogeca asked how much sugar is traded on the world market and what the most important factor affecting prices is.
CEFS noted that, whereas world consumption continues to increase, it is stagnant in the EU as governments and the European Commission seek to reduce sugar consumption through reformulation. CEFS stressed the significance for Brazilian producers of the depressed BRL, which gives them an unassailable competitive advantage on world markets. CEFS also asked whether the better than expected Brazilian crop would have an impact on the level of world stocks and to what degree.

ASSUC agreed that a bubble exists, since futures prices are well above what is being paid for physical sugar. However, sugar prices are not high enough to encourage investment in

(Brazilian) crystallisation capacity and Brazilian producers are approaching the limits of their capacity. Therefore, should the bubble burst, prices will not go back to what they were.
ASSUC agreed that many smaller factories are in need of cash to service their debts and that selling sugar for export involves a wait of weeks or months for cash, whereas the sale of ethanol brings cash immediately. Producers also receive some tax exemptions by selling ethanol.
ASSUC stated that around a third of sugar produced is traded on the world market. Only a few countries produce sugar for the world market, these being: Brazil, India, Thailand, Australia and certain countries in Central America. Other exports tend to offload excess production onto the world market.
In response to criticism of speculators, CELCAA stressed that speculators are necessary to provide liquidity to markets.

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

March 2016 EU white sugar price at 433 EUR/tonne. A strong increase in London No. 5 means that it is now very close to the EU price.
Industrial sugar price at 344 EUR/tonne for buyers and 313 EUR/tonne for producers.
Average import prices at 441 EUR/tonne for whites, 398 for raws, 359 for raws for refining and 650 for speciality raws.
Import figures presented. EBA/EPA imports are 300kt less than at the same time last year.
The CXL quota is almost filled, except for 143kt in the Brazilian sub-quota.
27kt of 400kt industrial sugar import quota so far allocated.
No new Balance Sheet from the Management Committee of 26 May. Commission presented the figures from the Balance Sheet from the March 2016 Management Committee.

CIUS called stock levels worrying and called for temporary measures. He argued that reported prices cannot be used as an argument against temporary measures, since spot prices are much higher. He also stated that there is no evidence that sugar consumption will fall significantly below the 17 mmt forecast by the 2015/16 balance sheet. He argued that the EBA/EPA import figures of c. 2.1 mmt are optimistic, since sugar users are having difficulties sourcing imports from EBA/EPA origin.
CIBE asked CIUS to provide statistics for the consumption trends of sugar-containing products in the EU.
CEFS drew the attention on the uncertainty on the level of consumption and stocks and noted that reformulation is one of the priorities of the Dutch EU Council presidency.
Regarding prices reported in the Eu price reporting scheme, these have been close to the reference threshold for over a year.
CIUS argued that the nutrition debate will not have a substantial effect on consumption in the short-term.
ECVC argued that it is not availability that is the issue, but prices, which users do not want to pay.
ESRA stated that there is a difference between the situation today and the situation in 2010/11, when the EU ran out of sugar. If users are having difficulty sourcing sugar, they should place orders with the refiners, which are holding stocks that they are prepared to sell for reasonable prices. ESRA restated that it is not availability that is the issue, but prices.

Commission stated that the European Commission and Member States have not yet reached a decision on whether temporary measures are necessary.

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)

Commission underlined that the draft legislation on aid for private storage, licences and sugar sector agreements (i.e. the delegated act on purchase terms for beet in the sugar sector) is out of the Commission's hands and the respective delegated acts are now under scrutiny by the EU Council and Parliament.
Commission commented on the delegated act on purchase terms for beet in the sugar sector, which is a compromise between growers, producers, Member States and competition lawyers. Of note is that the act refers to value-sharing and not profit-sharing. The inclusion of value-sharing clauses in inter-trade agreements cannot be made mandatory since this is not legally possible. National-level price negotiations are not allowed according to competition rules. The delegated act is intended to provide legal coverage for growers and processors. The Commission stands ready to clarify points of the legislation should national authorities pose practical or technical questions thereto.

CEFS recognised the passage through the Commission of the legislation on licences in the post-quota period and requested that the TAXUD Surveillance 2 system be activated for EBA/EPA imports before the end of quotas so that the good working of the system can be verified. CEFS asked about the status of a three-column document that has been alluded to by the Commission services in the past and that is to clarify certain provisions in the legislation on aid for private storage, in particular those related to checks. CEFS welcomed the delegated act on purchase terms for beet in the sugar sector.
CIBE welcomed the delegated act on purchase terms for beet in the sugar sector and called on the EU Council and Parliament to adopt the act without delay.
ECVC stressed the need to take into account producers in the DOM in legislation on purchase terms.

Commission presented the state of play of discussions on the two working documents on notifications and on additional import duties that were presented at the last Management Committee. Commission asked for input from stakeholders within 10-15 days if possible. The aim of both working documents is to produce provisions on the post-quota period that will feed into horizontal legislation on notifications and trade mechanisms.
Commission raised a number of outstanding questions, including: isoglucose price reporting; beet price reporting; changes in the definition of isoglucose; reporting of isoglucose production according to quantities sold.
There is no specific timeline for the legislation as yet, but Commission aims to conclude by end 2016.

CIBE stressed that notifications in the post-quota period must be consistent with the current system of notifications. CIBE favours notifications for isoglucose. Regarding beet price notifications, CIBE stressed the need to take a number of factors into account in order to avoid that reported beet prices be of not sound quality. Reporting of industrial sugar prices is of interest to CIBE. Regarding subsidiarity, CIBE made clear that it is important to ensure

that Member States use the same methodology to preserve the consistency and reliability of the balance sheet. CIBE promised to provide comments to the Commission.
CEFS supported a consistent balance sheet in the post-quota period. While welcoming transparency, CEFS cautioned against too much of it, which could fall foul of competition rules. CEFS promised to provide comments to the Commission.
On the reporting of isoglucose production, FoodDrinkEurope asked that this be done according to quantities shipped and **not** quantities sold, since the latter are contracted in advance.

5. Information by the Commission on the DG-AGRI commodity price dashboard (sugar)

Commission responded to a query from CIBE regarding an apparent change in the definition of consumer prices presented on the sugar dashboard. Whereas consumer prices before referred to ‘sugar’, they now refer to prices of sugar, honey, chocolate, confectionery, etc. In fact, the consumer prices have always referred to this range of products and it is only the name that has been changed to better reflect the reality of the statistics.

6. Information by the Commission on the WTO discussions under GATT Article XXIV:6 following accession of Croatia

Commission briefed members on the above point. Due to Croatia’s accession to the EU, the Commission is obliged to negotiate possible compensation with third country members of the WTO under Art. XXIV:6 of the GATT. Brazil is the most complicated partner, since before accession its sugar benefited from access to the Croatian market at a sub-bound tariff of 11 EUR/tonne. Brazil would like to use this figure as a starting point for negotiations. A high-level meeting between officials from DG AGRI and Brazilian counterpart took place on 3 June 2016. A follow-up negotiation was announced for within 2-3 weeks of the date of the meeting.

ESRA called for a conclusion of the negotiations as soon as possible and regretted the expiry of the transitional TRQ of 40,000 tonnes.

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

Commission referred participants to the document circulated in advance of the meeting concerning the responses of India, Thailand and Brazil to sugar issues raised at the WTO Committee on Agriculture.

CEFS noted that the first round of consultations will take place on 7 June 2016.

8. Information by the Commission on DG-AGRI ongoing study on the impact on EU agriculture and agricultural trade of EU-concluded bilateral trade agreements

Participants are referred to the presentation that was circulated before the meeting. Commission unable to give many concrete details at this stage. Copenhagen Economics has been selected as the contractor for the consultation.

Beelife questioned the generalisability of the results of a study that will consider only 3 free trade agreements and 5 case studies.
CEFS would like to see a study on the cumulative impact of the EU's free trade agreements on the EU sugar sector. CEFS also drew attention to the draft interim trade sustainability impact assessment that was published by Ecorys in June 2016 and that refers to sugar (along with alcohol and tobacco) as an 'unhealthy commodity'. CEFS stressed that this must not become a precedent for impact assessments (be they ex-ante or ex-post) in the future.
CIBE also registered her concern regarding the Ecorys designation of sugar as an 'unhealthy commodity'.
ESRA stressed the need for any such study to consider the impacts on the whole of the EU sugar sector (including the sugar refining sector), and not just the beet sugar sector.

DRIED FODDER

Item 1: The agenda was adopted.

Item 2: Review of the 2015/2016 marketing year and forecasts for 2016/2017.

DG AGRI went over the 2015/2016 market situation for cereals, oilseeds and protein crops both globally and in Europe, and outlined the forecasts for 2016/2017.

Total surface area for cereals in the EU in 2016/2017 was set to increase by 1%, and production by 0.8%. Increasing end-of-year stocks for all cereals in 2016/2017 were predicted to reach 49 million tonnes according to DG AGRI's draft balance sheet and levels of soft wheat in storage would also rise. Forecasts for oilseed surface area in 2016/2017 hinted at a 2.5% rise, with a 3% increase in production. As for protein crops, forecasts predicted a 1.5% increase in surface area, yet a 5% drop in production. The EU's protein deficit was an estimated 61% in 2015/2016, compared to 58% in 2014/2015.

CIDE presented its data on dehydrated fodder for the 2015/2016 marketing year. Production stood at around 3.14 million tonnes and had slightly fallen due to lower yields caused by heavy rain in the spring of 2015. Germany had been particularly affected. End-of-year stocks totalled 1 million tonnes. The price of dried fodder in Italy differed greatly from prices in other countries. The sector was working on establishing a certification scheme to improve its market position. Due to the drop in the price of dried fodder, farmers were moving more towards producing alfalfa seed.

CIDE detailed its forecasts for the 2016/2017 marketing year, which revealed that production would be relatively stable, totalling some 3.17 million tonnes. Rain had delayed the harvest and meant that factories were forced to turn to high-temperature drying. Market forecasts for exports were good in the Mediterranean Basin, for instance in countries such as Saudi Arabia. Spanish companies could now export to China (capacity 250,000 tonnes). Nonetheless, the exported volumes fell below the expectations of European industry, which had been affected by the EU dairy crisis. Spanish exports to China totalled 90,000 tonnes, because of competition with dried fodder exports from the USA. CIDE asked for DG AGRI's support to establish a multi-country/single product B2B promotion campaign targeting third countries. CIDE also called on DG AGRI to defend non-GM alfalfa on the Chinese market.

Item 3: Definition of dehydrated alfalfa

The quality of dried fodder from the USA differed from that of dehydrated fodder produced in the EU. The EU's drying process tanned the alfalfa proteins and protected them against deteriorating in the cow's rumen. However, the standard that was being debated in the USA could lead to kiln-dried hay being labelled as a dehydrated product. CIDE therefore called on the EC to set a European standard, or even develop certification for alfalfa drying.

Item 4: Strategic issues regarding world alfalfa production

The sector had prepared a presentation, which was available on CIRCABC.

Item 5: CAP

a) Greening

DG AGRI presented the results of the public consultation on greening, the state of play of greening payments, and the timetable for in-house work at DG AGRI. The Commission would put its proposals on simplification to the Council and Parliament by the end of June 2016. COCERAL noted that there was no data on France.

A difference of opinions became clear between ECVC and Copa and Cogeca. ECVC did not support allowing nitrogen-fixing crops to be grown on ecological focus areas, whereas Copa and Cogeca believed that considering such production eligible would be a first step towards developing more virtuous practices for the sustainable intensification of agricultural production.

b) Coupled payments (voluntary coupled support)

DG AGRI walked the group through the Member State notifications it had received. 16 MS have decided to implement coupled payments for protein crops and allocated part of their annual national ceiling for direct payments including the additional 2% envelope to their financing. The total annual amount came to €441 million, i.e. 10% of the total envelope for voluntary coupled support and the total maximum area (quantitative limit) amounts to 4,3 Mio hectares. The average payment per hectare was €102. Regulation 1307/2013 allows the Member States to review their decisions on coupled payments before 1/8/2016 with effect from 2017.

Item 7: A.O.B.

CIDE commented that the derogation on the use of processing aids to produce alfalfa protein concentrate for organic farming would come to an end on 01/01/2017. Page 40 of the EGTOP Feed Mandate II final report concluded that the use of processing aids to produce alfalfa protein concentrate was not compatible with the principles of organic farming. Nonetheless, should alfalfa protein concentrate no longer be permitted for use in organic farming, there was a risk that factories could close, as they would no longer be profitable.