Final minutes
Civil Dialogue Group – Arable Crops, Sugar and starch, 14 December 2016

SUGAR

1. The agenda was approved. The report of the last meeting of 3 June 2016 will be circulated on CIRCABC for approval.

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 sugar prices are falling as speculators begin liquidation of unprecedented long positions (c. 400,000 lots). The speculator threat remains: longs are still high at c. 180,000 lots.
Nevertheless, world market fundamentals are strong: second deficit year approaching, balance expected to be -4.6 mmt in 2016/17. Global stocks-to-use ratio down to 27 per cent for 2016/27 as consumption continues to climb. Stock drawdown expected to continue into 2017, especially in India, EU,Thailand. It is hard to see production exceeding consumption in the near future.
Brazil: lower cane yields (resulting from dryness in June/July 2016, low replanting) offset by shift in cane mix towards sugar due to lower ethanol prices; weak BRL → very high sugar prices for local exporters; production for 2016/17 estimated at 35 mmt.
India: imports will be needed because of falling stocks, but government waiting since estimates of production and stocks are higher than those of market observers; demand for sugar may be affected by government's demonetarisation policy; India to fall into deficit in 2017/18.
China: strong incentive to import remains, despite high stocks, due to high domestic prices; market remains in deficit; around 1.5 mmt smuggled into the country from Myanmar, Laos per year.
Thailand: smaller production of c. 9.6 mmt for 2016/17, down from 11 mmt in previous years. Production outlook fairly neutral, despite announcements to set up 25 new sugar factories (most such projects never come to fruition). Any increase in sugar production likely to be absorbed by the growing market for sugar in the Far East.
In summary: short-term price outlook bearish, due to liquidation of long positions; medium-to-long-term outlook more positive, as market fundamentals and a fall in the stocks-to-use ratio will support world sugar prices.
2017/18: EU, U.S. and CIS expected to enjoy big beet crops.

CEFS raised the Chinese safeguard investigation and its potential effect on imports into China. ASSUC responded that the Chinese government will probably restrict sugar imports.
CIBE asked for the opening of a second export tranche as soon as possible. This request was supported by CEFS and ASSUC.
CIUS asked about the increase in oil prices and its possible impact on ethanol prices. ASSUC responded that the ethanol price does not always follow the Brent crude price, and that oil prices are still relatively low, at c. 55 USD/barrel.

3. Presentation by the Commission on the updated sugar and isoglucose 2015/16 balance sheet and new balance sheet for 2016/17 – exchange of views

EU white sugar price at 450 EUR/t for September 2016.
London No. 5 at 595 USD/t (540 EUR/t) for October 2016.
Industrial sugar at 371 EUR/t (producers) and 353 EUR/t (buyers) in September 2016.
ACP imports at 462 EUR/t (whites) and 399 EUR/t (raws) (CAF) for September 2016. ACP raws for refining at 380 EUR/t and 679 EUR/t raws for consumption for September 2016.
Lower demand for EPA/EBA licences in past two weeks.
CXL quotas full, except for Brazilian and Australian quotas.
Balkans quotas under half full, with most (75,000t) from Serbia.
TAXUD quotas (CY 2016): 55,000t from Moldova; Latin American quotas 2/3 filled (mostly from Central America – 107,000t); no imports of high sugar-containing products from Colombia and Peru; Ukraine sugar quota filled.
EU total imports for 2015/16: big fall in EPA/EBA imports, but rise in imports from other destinations (e.g. Brazil, Cuba).
EU exports at 1.309 mmt in 2015/16, down slightly on 2014/15.
EU white sugar exports price at 468 EUR/t in September 2016.
EU sugar stocks (as at August 2016) at 2.311 mmt (including fresh production) – down 0.5 mmt on previous year.
2016/17 beet areas up 8 per cent on 2015/16.
Estimated yields (MARS) at 72.7 t/ha (vs. usual c. 72 t/ha).
Final stock data for 2015/16 received on 30 November 2016. Quota ending stocks for 2015/16 much higher than the c. 700,000t forecast in balance sheet. Questions have been sent to 14 Member States to clarify communications. Higher ending stocks could be a result of lower consumption. This was not expected. New balance sheet to be presented at the Management Committee of 22 December 2016.
No new export tranche to be voted in December 2016 due to uncertainty about ending stocks figures and procedural constraints. Note that any draft implementing regulation opening a second export tranche will have to be submitted to a month-long public consultation. This will delay the process by one month. CEFS requested that the second tranche be opened as soon as possible for operators to take advantage of market opportunities as there is no objective reason to delay it to January from a market point of view. In addition, the Commission is in favour of more market orientation and reducing administrative burdens. Moreover, the experience of past years shows that ending stocks are underestimated and the level of the EU average price shown in the reporting scheme remain quite stable. This can be seen as an additional indication that the market is fluid.

CEFS asked CIUS its views about the potential impact of reformulation on consumption as consumption is difficult to assess given that it is an adjusting factor in the balance sheet. CIUS responded that sugar taxes are being put in place in some Member States, increasing the pressure for reformulation and that this will have an impact on consumption, though not sure how much.
CIUS noted that low reported prices do not reflect spot prices, which are currently higher.
CIUS stated that stocks are too low. Some sugar users are unable to obtain sugar. CIUS called for corrective measures. CIBE noted that quotas will cease to exist on 30 September 2017 and from that time both quota stocks and out-of-quota stocks will be available for food use. CEFS disagreed with CIUS analysis and underlined that fresh production in August and September 2017 is likely to be at least 1-1.5 mmt as in previous years. Copa-Cogeca noted that production in 2017/18 will be higher. CIBE noted that even a small increase in the supply of sugar on the EU market can have a big impact on the market.

CIBE called for more market transparency along the supply chain (i.e. how sugar is used) in particular there is a real need for more statistics on sugar containing products to better understand trends for these products or categories of products.
CIBE asked why Moldova has been allowed to exceed its quantitative limit for sugar imports for CY 2016. Commission clarified that the Moldovan concessions are not limited by a tariff-rate quota but are instead regulated by an anti-circumvention mechanism laid out by REGULATION (EU) 2016/400. The anti-circumvention mechanism sets no limit on imports so long as increases in import levels can be justified. The increase in sugar imports from Moldova is due to a diversion of Moldovan export flows from Kazakhstan (where prices have fallen) to the EU.
CEFS and CIBE reiterated their support for the opening of a second export tranche as soon as possible. Copa-Cogeca stated that the opening of a second export tranche will not affect the availability of sugar for food use. Supporting COPA-COGECA's view, CEFS stated that the prospects for bioethanol production as a result of the recent EU legislative package aiming at phasing out the first generation of biofuels would have a negative impact on the EU sugar market balance. This cannot and should not be ignored.

4. Information 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 (notifications, TRQ management)

Notifications: discussions are advanced. To be notified in the post-quota period: sugar prices for the previous month and an estimate for the current month; beet prices for the previous marketing year (need to define beet prices here); surfaces for ethanol and for sugar; estimate of production in the current marketing year and definitive production figures for the previous marketing year; isoglucose quantities shipped; sugar stocks (monthly); isoglucose stocks (yearly). Entry into force: possibly May 2017.
TRQ management: discussions are less advanced. DG AGRI is attempting to limit the impact of the new legislation on sugar. The so-called Declaration of Independence is currently off the table. Under discussion is whether to allow requests for licences before the opening of the quotas (vs. current system, where requests are made after the opening of the quotas).
Additional import duties: provisions on additional import duties for sugar and related products are to be incorporated into a piece of horizontal legislation on third wave trade mechanisms. Discussions have barely begun, they are expected to follow in the coming months.

CEFS called for the definition of extractible sugars currently set out in the Single CMO Regulation to remain the same for an accurate balance sheet. Commission responded that it will be up to Member States to decide on how to define extractible sugars.
CEFS called for the immediate publication of TAXUD Surveillance 2 information on EU sugar exports.
Commission responded that it has sent a request to TAXUD on this point and expects publication of the figures to begin shortly.
CIBE regretted that isoglucose price reporting is not foreseen in the new legislation on notifications. Commission stated that isoglucose price reporting is not supported by the Member States and also raises issues of confidentiality due to the concentration of EU isoglucose production.

5. Information on the draft omnibus regulation in particular as regards the income stabilisation tool

Commission presented an overview of risk management instruments currently in use, namely: insurance premiums; mutual funds; and the income stabilisation tool (IST) (presentation attached).
The so-called 'Omnibus Regulation' was presented: it proposes to introduce a sectorial income stabilisation tools in addition to the general IST, which is open to all farmers, and to contribute to the initial capital stock of mutual funds with public funding. The regulation also proposes to remove certain EC reporting obligations. The new sectorial income stabilisation tool would be declared under the Amber box of the WTO (rather than Green box, as is the case today for the general IST).

CIBE welcomed the reform of the income stabilisation tool. They asked for the deployment of the tool to be based on indices rather than income (which would require looking into accountancy data). Commission stated that this is under consideration, but said that Member States' methodology must be reliable to reduce under or over-compensation as much as possible.
CEFS welcomed the presentation on omnibus proposal and shared the Commission's view on the income stabilisation tool. As a first reaction, CEFS indicated that it is essential for the acceptance of such measures by taxpayers and for their efficiency that funds are targeted to those farms and farmers who need them most.

6. Information on DG AGRI study on the cumulative impact on EU agriculture and agricultural trade of EU-concluded bilateral trade agreements

Commission presented the DG AGRI study on the cumulative impact on EU agriculture and agricultural trade of EU-concluded bilateral trade agreements (presentation attached).

CIBE and CEFS welcomed the conclusion of the study with regards to sugar, namely that sugar is a sensitive product and should continue to be treated as such. CIBE questioned the positive gains shown for the sector in value: an explanation could be the marketing year chosen as a reference which was an atypical year.
ASSUC welcomed the conclusion of the study, in particular the forecast of increased imports and exports in the event of tariff liberalisation. ASSUC questioned whether Commission plans to consult with the ACP/LDC countries on the results of the study, since these countries might reasonably be expected to lose out in the event of tariff liberalisation. The Commission replied that no discussion has taken place yet, but expects that the topic may come up at a later stage. The study is publically available.
The EEB noted the big ambitions of the study. They emphasised that results must be taken into account cautiously given the uncertainty of underlying assumptions.
The ECVC noted that cross-sectoral effects may exist (e.g. the use of beet pulp in animal feed for cows used in beef production. Commission replied that cross-sectoral effects have been taken into account by the study where possible.
CEFS directed participants to a press release in reaction to the study that was co-signed by CIBE.

7. Setting dates for 2017

The provisional calendar for meetings of the Civil Dialogue Group Arable Crops – Sugar is as follows:

- 7 February 2017 (sugar and hops)
- 2 June 2017 (sugar and dried fodder)
- 15 September 2017 (sugar and starch)
- 6 December 2017 (sugar and rice)

STARCH

1. The draft agenda was approved.

2. Market situation for starch potatoes

The Bundesverband der Stärkekartoffelerzeuger e.V. (BVS) presented the market situation for starch potatoes
Germany: downward trend in areas continues, with no stabilisation; 51,500 ha planted in 2016, down 20 per cent in 5 years.
France: voluntary coupled support (VCS) since 2014 has reversed downward trend in areas, which stood at 21,000 ha in 2016.
Denmark: increasing processing capacity saw areas rise to 26,000 ha in 2016, a 20 per cent increase.
Poland: VCS has supported production since 2014, but drought hit hard in 2016; 24,000 ha used to cultivate starch potatoes in 2016.
Finland: small decrease in areas in 2016 (down 2.9 per cent) due to below average yields; Finland receives VCS for starch potatoes.
Austria: areas up in 2016 (5,200 ha vs. 4,766 ha in 2015).
Czech Republic: 5,300 ha cultivated in 2016; high level of VCS.
EU-28: overall areas up to 188,700 ha from 180,900 ha in 2014. Drivers of this trend include VCS, good market conditions, few/less alternatives in cultivation; **but** more competition from sugar beet and food potatoes.

Commission asked after the reason for increased competition from sugar beets and food potatoes. BVS replied that beet areas are increasing (FR, DE, NL) in advance of the end of sugar quotas, and returns on food potatoes are higher than those for starch potatoes.
StarchEurope stated that VCS distorts competition between Member States and between crops (i.e. which crops are most attractive to farmers for cultivation). StarchEurope noted that competition exists between potato starch and other starches, but that potato starch has special characteristics and starch potatoes are adapting well. There is a shift from non-food to food markets for potato starch.

3. Revision of the EU Bioeconomy Strategy

Commission presented the revision of the EU Bioeconomy Strategy (<u>see presentation, attached</u>).

StarchEurope welcomed the revision process. StarchEurope has been an active supporter of the bioeconomy since 2012. StarchEurope is a member of the EU Bioeconomy Alliance, which will input into the revision process in 2017. Pointing out areas of potential progress, StarchEurope identified: more work needed on the demand side (e.g. public procurement); bio-based targets in reviews of other legislation (e.g. Waste Framework Directive); synergies between different Directorates-General in the European Commission; need to go beyond research and innovation.
The chair (CELCAA) asked about cascading. Commission replied that discussion on cascading is ongoing, but that cascading is supported as a concept. There are no plans for formal regulation.
EEB welcomed the revision of the strategy. EEB noted that chemical plant protection products do not always work and expressed a preference for biobased alternatives.
The European Fermentation Group (EFG), sector group of Cefic, stated that the revised strategy shall promote a level playing field between alternative uses (material and energy) of

feedstocks used for fermentation: no discrimination between alternative uses should be allowed.

4. The procedure for reauthorisation of substances used in growing/storing potatoes (e.g. Diquat) in ScoPAFF.

Commission presented the process of Annex I renewal (see presentation, attached). This process is two-step and involves 1) a renewal of approval procedure (at European Commission level) and 2) a renewal of authorisation (at Member State level).
Regarding Diquat, the Commission has proposed non-renewal based on the conclusions of EFSA. No vote has been taken on the substance yet, since an applicant (Syngenta) is currently exchanging technical letters with EFSA. According to the last exchange, EFSA is not inclined to change its conclusion of Diquat. Therefore, Commission will not alter its recommendation.

StarchEurope noted with concern the process, given that Diquat is widely used on starch potatoes grown in the EU. They asked for a concrete timetable. Commission replied that a vote could take place in January 2017; a vote will definitely have taken place by March. (Post-meeting note: A further letter was send by the applicant to the EFSA which could influence the timetable).
Copa-Cogeca did not welcome the assessment of EFSA and warned that starch potato production could cease without available plant protection products.

5. Statistics on starch production and main priorities of the European starch industry

StarchEurope presented some key statistics on starch production and main priorities of the European starch industry (see presentation, attached).
The end of isoglucose quotas will see production increase to 2-3 mmt over time, but there will not be a tsunami of new production.
On trade, StarchEurope noted with concern the tariff-rate quota for 30,000 tonnes of tapioca starch from Vietnam.

6. Trade defence instruments: state of play and action in the field of the countervailing (anti-subsidy) duty applied to the imports of EU potato starch into China and the impact of this case on the expected end or extension of the anti-dumping duties on the same product.

Counter-vailing duties on EU potato starch imports into China amount to between 7.5 and 12.4 per cent ad valorem.
Anti-dumping duties on EU potato starch imports into China amount to between 12.6 and 56.7 per cent ad valorem.
Most concerned by these duties are: DE, FR, NL, AT.
An expiry review of the counter-vailing duties is underway. The duties were supposed to expire in September 2016 but there was a new complaint. Commission will be in contact with the relevant Chinese authorities during this expiry review period. A major questionnaire have been replied by COM and sent to the Chinese authorities for assessment. Expiry review to be completed by September 2017. Uncertainty on whether China will (or not) extend the duties. In case CHN decides to extend the period, Commission may challenge the decision in local Chinese courts or as a second option, in the WTO.
In addition to the CVD, China imposes anti-dumping duties on EU potato starch imports. These are are due to expire in February 2018. Normal practice for China is to end anti-dumping duties after a period of 10 years. Since the anti-dumping duties on EU potato starch imports will have been imposed 10 years ago by February 2018, it is hoped that China will put an end to the anti-dumping duties.

StarchEurope noted that the Chinese market is ripe with opportunity for EU potato starch (e.g. for glass noodles). European Commission requested data from the industry. StarchEurope will support Commission with the necessary data.

7. Voluntary Coupled Support (VCS)

On VCS, StarchEurope read aloud a statement that has been attached to these minutes.

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