

Report of the High-Level Group on Sugar

5 July 2019

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1 CONTEXT AND MANDATE OF THE HIGH-LEVEL GROUP

In the light of the difficult market situation for sugar, the Commissioner for Agriculture and Rural Development at the AGRI-FISH Council meeting on 19 November 2018 announced the establishment of a High-Level Expert Group on Sugar (HLG).

The mandate of the HLG was twofold:

- (1) To discuss the current market situation as well as Member States' and stakeholders' concerns about the EU sugar market.
- (2) To explore and evaluate possible solutions and policy measures as regards their effectiveness and suitability to tackle the problems identified.

The Director-General for Agriculture and Rural Development chaired the HLG, composed by representatives of all EU Member States. The HLG held three meetings between January and June 2019.

The first meeting on January 2019, restricted to Member States and the European Commission services, focused on the current market situation and in particular developments since the abolition of quotas in 2017. At the second meeting, on 19 March 2019, the HLG invited external experts to support the Group's work. The presentations from the external experts covered the topics a) price transmission in the sugar value chain (Mr Mauro Bruni from Areté Research & Consulting), b) long-term analysis of the EU sugar market evolution in Member States (Ms Marlene Hass from Thünen Institute), and c) the impact of health policy and nutrition trends on sugar consumption (Mr Michele Cecchini from OECD). At the same meeting, representatives of DG SANTE, AGRI and COMP provided input and background respectively on issues relating to uses of plant protection products, Voluntary Coupled Support and competition identified by the HLG.

The HLG also invited major European stakeholder groups in the sugar supply chain to provide oral and written input: sugar producers (CEFS) sugar beet growers (CIBE), sugar refiners, (ESRA), sugar traders (ASSUC), sugar users (CIUS) and employees of sugar producers (EFFAT).

This Report summarises the work carried out by the HLG, it highlights the main issues identified, synthesises the main positions of Member States, evaluate possible solutions and recommends a set of actions, from which the sector may benefit in the short and mid term. The Report is transmitted to Commissioner Hogan in view of being debated in an upcoming AGRI-FISH Council meeting.

2 BACKGROUND ON EU SUGAR SECTOR

2.1 Market organisation for sugar and reform 2006

The *Sugar Common Market Organisation* (CMO) was established in 1968. It was designed to achieve self-supply in the European market while guaranteeing remunerative prices to producers. Production was limited closely to internal consumption by quotas allocated to Member States and in turn to each undertaking. The sector had to participate in the cost of eliminating export surpluses by means of levies paid to the EU (European Community at that time) budget. Overall, the organisation incurred scarcely any budget expenditure, since the sector was kept in profit by the high prices paid by users and final consumers.

In the 70s, the European sugar market somewhat opened to third countries mainly because of the accession of the UK and the 1975 ACP Protocol. The influx of these imported quantities resulted in the need to re-export, at a cost covered by the EU budget. Later on, following the 1995 Uruguay Round, the EU committed to limit its subsidised exports. The CMO was adjusted accordingly and, in the event of higher imports, the market balance was re-established by reducing the EU production.

With the opening of the EU market to least developed countries as from 2000 and to certain Balkan countries in 2001 as well as the export reduction resulting from the WTO Sugar Panel in 2005, the sugar regime became increasingly unbalanced. High EU prices had allowed the cultivation of sugar beet in almost all Member States including in less suitable regions, and had enhanced the attractiveness of the EU market for third-countries. In addition, the CMO received increasing criticism from EU sugar users as well as from food, chemical and fermentation industries, as they were penalised by the high price of sugar in relation to their international competitors.

The *2006 reform* aimed at maintaining a competitive EU production whilst respecting international commitments as well as ensuring greater coherence between the sugar policy and the new CAP framework set in 2003. Two factors were put in place to achieve this: the reduction of domestic prices to a level that reflected the cost structure of the most efficient undertakings and a restructuring scheme allowing non-viable undertakings to leave the sector under favourable conditions. However, the ultimate goal of the reform was to help the sector get ready to operate without a production quota system, originally intended to end in 2015, but subsequently postponed until 2017.

The intervention price for white sugar remained at the pre-reform level for two marketing years but was subsequently reduced by 36%, in two steps, down to EUR 404.4 per tonne, which corresponds to the current reference threshold. A total 36% reduction was also applied to the reference price for raw sugar, to the price net of levies of the sugar industry and to the minimum beet price. To offset the fall in the minimum price, a direct aid to producers was integrated into the single decoupled payment system. This aid did not generate new budget expenditure as it was financed from the transfer of appropriations previously allocated to refunds. The reform also introduced an administrative system to monitor EU prices, so as to increase the transparency of the sugar market and to facilitate decision-making.

The 2006 reform had already simplified the sugar quota system. It combined the former A and B quotas in a single EU quota (the A quota guaranteed each Member State a share of the EU market, whereas the B quota afforded flexibility and adaptability to better growing and market conditions). The former C quota, which had to be exported, became known as “out-of-quota” production, and was restricted to industrial uses, supply for the outermost regions, exported without refund or carried forward to the next marketing year (thus becoming quota production of that year). The 2006 reform reduced production quotas from 17 to 13.5 million tonnes by means of a restructuring programme (see below).

The reform catered for two new market measures to provide internal support and market management: withdrawal from the market and private storage. In addition, public intervention was continued during a transitional period until 2009/2010.

The *withdrawal measure* consisted of fixing a threshold beyond which the production under quota of each undertaking was ‘withdrawn’ from the market and stored until the beginning of the following marketing year. Withdrawal measures were applied for the first two marketing years after the reform.

Private storage consisted in financing the storage of sugar by undertakings on a voluntary basis with the aim to reduce the quantities available in the market so as to support sugar prices. This measure has not been used since the 2006 reform.

Intervention was subject to a maximum quantity of 600,000 tonnes for the whole EU, broken down by Member State pro rata of production quotas. No intervention purchases took place during the four years it remained available after the 2006 reform.

Import duties were maintained at the substantially high levels applied before the reform (EUR 419 per tonne for white sugar and EUR 339 per tonne for raw sugar), which de facto limited imports to preferential agreements or tariff rate quotas with lower or no duties. Under the Everything but Arms initiative (EBA) and the Economic Partnership Agreements (EPA) imports were duty free - for the latter within a limit which ended in 2014/15 - while tariff rate quotas were provided to the western Balkan countries or following agreements under WTO concession rules (CXL quotas).

Besides, in order to ensure that end-using industries were able to obtain sugar supply at prices similar to the world market, the European Commission allowed duty-free tariff rate quotas of sugar and isoglucose for industrial uses for 200,000 tonnes in 2006/2007 and 400,000 tonnes from 2008/2009 until 2016/2017. These quotas were hardly used, except in 2008/2009 when almost 180,000 tonnes were imported.

The reform did not touch upon traditional existing supplies of sugar for refining and provided for the needs of full-time refiners until the end of quotas who benefited from a guaranteed duty free access to raw sugar up to a certain limit, which evolved from 1.8 to 2.4 million tonnes until 2017.

Concerning exports, following the WTO ruling exports were limited to 1.374 million tonnes of out-of-quota sugar per year. Export refunds were suppressed as from September 2008.

2.2 Restructuring process in various Member States

With the restructuring scheme designed in 2006, sugar producers and beet growers who were unable or unwilling to cope with the tougher market conditions post 2006 received financial incentives for leaving the sector.

The scheme was financed via a levy on quotas held by operators: during the first three marketing years of the reform, sugar manufacturers had to pay a temporary restructuring amount per tonne of quota to finance the restructuring fund. This was possible due to the fact that the sugar reference price did not decrease during the first two marketing years after the reform (2006/2007 and 2007/2008) while the beet minimum price decreased from the year one. Isoglucose producers were also contributors and beneficiaries of the fund. Only cane sugar refiners did not contribute.

The restructuring fund financed four types of measures:

- Restructuring aid to sugar producers who renounced quotas, which was extended to sugar beet growers in 2008/2009;
- Diversification aid aimed at encouraging the development of alternatives in regions affected by the restructuring of the sugar sector;
- Transitional aid to full-time refiners, allowing them to adapt to the restructuring of the sugar industry;
- Transitional aid to Austria and Sweden. In Austria, the aid was intended for investments in collection centres of sugar beet and other logistical infrastructure needed because of restructuring. In Sweden, it financed direct and indirect benefits for sugar beet growers in Gotland and Öland giving up sugar production.

In addition, some Member States, which had reduced their sugar quota by more than 50% under the restructuring scheme, were authorised to pay temporary national state aid for beet growers who continued production.

Table 1 Restructuring budget (EUR)

Member State	Restructuring aid	Diversification aid	Additional aid for diversification	Transitional aid for full-time refiners	Transitional aid Austria + Sweden	Retroactive payment	TOTAL MS
Belgium	293,817,140	15,141,396				35,880,783	344,839,318
Bulgaria	2,168,001	424,156	424,156				3,016,313
Czech Republic	74,765,179	10,357,305				13,564,409	98,686,893
Denmark	36,537,869	4,339,747					40,877,616
Germany	639,318,698	64,196,338					703,515,036
Greece	99,834,159		8,690,779			30,342,259	138,867,197
Spain	429,903,696	51,071,411	14,967,067			23,481,728	519,423,902
France	600,287,322	59,418,302		24,800,000		11,213,212	695,718,835
Ireland	145,206,312	21,457,862	21,830,881			40,819,022	229,314,077
Italy	792,100,709	99,881,701	54,539,775			181,228,367	1,127,750,552

Latvia	48,546,678	7,219,929	7,282,298			10,239,690	73,288,594
Lithuania	16,759,369	1,723,321					18,482,689
Hungary	245,517,877	28,056,382	15,188,004			14,322,323	303,084,587
The Netherlands	160,292,930	9,979,370				16,642,376	186,914,676
Austria	24,995,653	4,898,250			9,000,000		38,893,903
Poland	287,525,085	31,257,239					318,782,324
Portugal	21,199,460	771,828	7,121,962	24,400,000		12,086,076	65,579,326
Romania	10,101,097	419,436					10,520,533
Slovakia	66,515,314	10,601,653	5,414,871			10,800,482	93,332,320
Slovenia	38,662,084	5,570,953	5,794,057	1,500,000		12,011,424	63,538,517
Finland	53,895,730	5,949,649		5,000,000		9,823,312	74,668,691
Sweden	53,916,528	8,195,761			4,701,242	8,723,659	75,537,190
United Kingdom	164,577,138			91,748,974			256,326,112
TOTAL EU	4,306,444,026	440,931,987	141,253,851	147,448,974	13,701,242	431,179,123	5,480,959,202

As a result of the scheme, EU production quotas were reduced from 17.5 to 13.5 million tonnes¹ at a restructuring cost of EUR 5.4 billion. Around 80 sugar production factories were closed. Beet sugar production quotas were totally renounced in some of the smallest sugar producers (Ireland, Latvia, Slovenia and Bulgaria and mainland Portugal), while quota reduction was substantial in Hungary (-74%), Italy (-67%), Greece (-50%), Spain (-50%), Slovakia (-46%) and Finland (-45%). The quota reductions in the other Member States were all below 20%.

Following the reform and the restructuring scheme, sugar production concentrated in the most competitive areas. While fresh production had averaged 18.2 million tonnes during the four years preceding the 2006 reform, it averaged 16.7 million tonnes between 2006/07 and 2016/17.

¹ With the accession of Croatia, with a sugar production quota of 192,877 tonnes, in 2013 the total EU production quota increased to 13,529,618 tonnes.

Table 2 Quota evolution by Member State (tonnes)

Member State	Quota 2006	Quota from 2009/10	% variation
Belgium	819,812	676,235	-18%
Bulgaria	4,752	0	-100%
Czech Republic	454,862	372,459	-18%
Denmark	420,746	372,383	-11%
Germany	3,416,896	2,898,256	-15%
Greece	317,502	158,702	-50%
Spain	996,961	498,480	-50%
France (Metropolitan)	3,288,747	2,956,787	-10%
France (OCT)	480,245	480,245	0%
Ireland	199,260	0	-100%
Italy	1,557,443	508,379	-67%
Latvia	66,505	0	-100%
Lithuania	106,010	90,252	-15%
Hungary	401,684	105,420	-74%
The Netherlands	864,560	804,888	-7%
Austria	387,326	351,027	-9%
Poland	1,671,926	1,405,608	-16%
Portugal (mainland)	69,718	0	-100%
Portugal (Azores)	9,953	9,953	0%
Romania	109,164	104,689	-4%
Slovenia	52,973	0	-100%
Slovakia	207,432	112,320	-46%
Finland	146,087	80,999	-45%
Sweden	368,262	293,186	-20%
United Kingdom	1,138,627	1,056,474	-7%
Total EU-27	17,554,453	13,336,741	-24%

2.3 Structure in sugar producing Member States at the end of the quota system

Before the 2006 reform, there were about 300,000 beet growers in the EU, cultivating 2.2 million hectares of sugar beet processed in 189 factories. EU production reached 20.1 million tonnes in marketing year 2005/06. By 2013, the number of farms had dropped to about 149,000, cultivating 1.5 million hectares, processed in 109 factories and concentrated in France, Germany and Poland (60% of the total EU sugar beet area).

Today, the EU sugar sector is highly concentrated with eight major operators, who are responsible for a large share of EU production. Sugar beet is grown in 19 Member States by some 140,000 beet growers and is processed in 107 factories during marketing year 2017/18, while cane refining is concentrated in five producers with refineries in 9 Member States.

Overall, according to CEFS, sugar production provides for more than 27,000 direct jobs, a large number of which are in rural areas. Beyond direct jobs, the sugar sector generates employment across a large number of European firms ranging from research institutes to machinery manufacturers, many of which are small or medium-sized enterprises. For their part, cane refiners employ 4,500 workers directly plus several thousand indirectly.

At the first meeting of the HLG, a number of Member States indicated that the restructuring aid received after the 2006 reform was used to reduce the production capacity of the sugar sector. This was illustrated by a significant reduction in the number of farmers and sugar producers that was achieved by the 2012/2013 marketing year, although yields improved during that period. These are the main elements that were indicated at the meeting:

- In Poland, the number of beet growers decreased from 62,000 to 34,000, the average beet area per grower increased from 3.8 ha to 6.8 ha and yields also increased from 47.7 tonnes per ha to 68.6 tonnes per ha, while 13 sugar factories closed;
- In Italy, from 19 factories in 2005/2006 only three are still in operation, producing around 300,000 tonnes on 37,000 ha cultivated by some 7,000 beet growers. Italy has turned into a significant deficit area within the EU as its average consumption is around 1.6 million tonnes;
- In France, five factories closed and 25 remained operational. Sugar production increased despite a reduction of 10% in harvested beet areas and of 12% of beet farmers;
- In the United Kingdom, the beet sector decreased from 6 to 4 factories after 2006. Growers of sugar beet have since fallen again to just over 3,000, under half of the amount growing in 2006. The sugar beet area has reduced from 130,000 ha in 2006 to 107,000 ha in 2017, whereas yield has increased from 56.9 tonnes per ha in 2006 to 83 tonnes per ha in 2017.
- In Denmark, the number of sugar beet growers decreased from 3,696 in 2006 to 940 in 2018, while increasing the average area per holding. One factory closed and only 2 remained active, which led to the concentration of production in the south;
- In Finland, one factory closed. Currently, there are some 700 beet growers and the average beet area has increased to 17 ha per farm. In addition, yields have slightly increased;
- In Sweden, a notable increase in yields from 50 tonnes per ha to 61 tonnes per ha has improved competitiveness. While the number of sugar beet growers and cultivated area decreased from 3,200 to around 1,400 growers and from 44,000 ha to 30,000 ha, total production levels remained rather stable, from 2.2 million tonnes of sugar beet in 2006 to 2 million tonnes in 2018;
- In Hungary, 1 factory remains from the 5 that were active in 2006;
- In Lithuania, 350 beet growers cultivate an average of 53 ha per grower and 2 sugar factories are active;

- In Slovakia the largest sugar factory was closed and the beet area decreased by 10,000 ha;
- In Croatia, the sugar sector could not benefit from the restructuring aid due to the time of accession to the EU, which Croatia considers as a competitive disadvantage compared to other Member States;
- In Portugal, Latvia and Bulgaria, sugar production has stopped and these countries become net importers.
- Other countries where factories were closed because of the restructuring process are: Germany (6 factories), Greece (2 factories), Spain (7 factories), Romania (one factory), Austria (one factory), the Netherlands (one factory), France (5 factories) and Belgium (2 factories).

2.4 Market evolution since the end of the quota system

An increase of the EU sugar production after the end of the production quotas was generally anticipated, but the sharp growth in production in the 2017/2018 marketing year exceeded expectations. The 18% increase in areas coupled to record yields resulted in a record production of 21.3 million tonnes, some 1.8 million tonnes higher than the previous year and 25% above the three previous years' average.

The effect of these large sugar availabilities and the end of the WTO export limit was that the EU became a net exporter in 2017/2018. Exports of sugar as such reached some 3.4 million tonnes, more than twice the 1.4 million tonnes exported in previous years, while imports decreased to 1.8 million tonnes from 2.5 million tonnes the previous year. Consumption, at some 18 million tonnes, remained relatively stable in 2017/2018 compared to the last quota years; recent trends in human consumption (using less sugar, reformulation) do not (yet) translate into a noticeable drop of current demand.

The surge in EU exports logically brought along a closer alignment between the EU and the world market, which was at that time characterised by a global surplus and a lengthy world price decline that had started in early 2017. The outcome of this combination of factors was a steady decrease of the EU reported average sugar price. From EUR 490 per tonne in September 2017 the price rapidly dropped to reach EUR 347 per tonne one year later, a level substantially below the reference threshold of EUR 404 per tonne.

Even if these low prices did not translate into an area reduction for the 2018/2019 marketing year, poor yields due to bad weather conditions led to a significant reduction in production: the latest estimate points at 17.6 million tonnes. This implies a significant change in the balance of EU sugar supply and, considering an expected minor decrease of demand, a reduction of forecast ending stocks that should support the market. However, the reported average sugar prices are still depressed, especially as a large share of sugar sales are made under long-term contracts which were signed before the beet harvest. Thus, the EU price reached an unprecedented low of EUR 312 per tonne in January 2019 and slightly increased to EUR 320 in May 2019. By contrast, EU spot prices published by specialised press, while less representative than the officially reported average price, have shown a substantial increase since the beginning of the 2018/2019 marketing year.

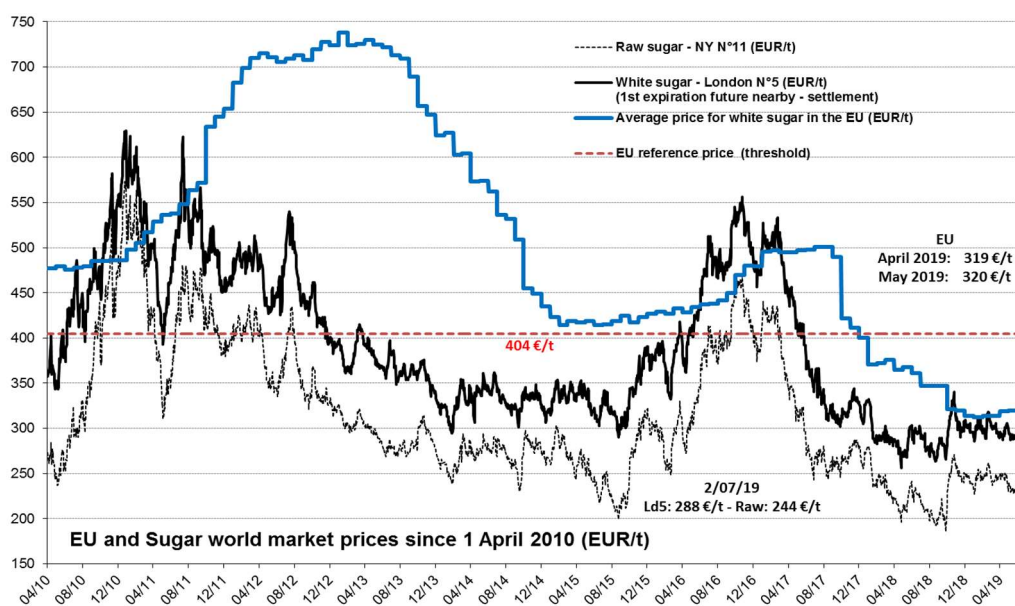
For marketing year 2019/2020, in some Member States producers or public authorities have already announced area reductions. The current expectation is that beet areas will be around 4.6% lower than in the two previous years. In addition, forecasted ending stocks for 2018/2019 are relatively low (1.5 million tonnes). This likewise hints at an improving market balance toward the end of this marketing year, even if not yet reflected in the average EU price.²

Consequently, prices should improve in the coming months and the sector may have gone through the worst of the transition phase to a new, post-quota environment, in which the sector will be better able to respond to market forces.

This transition process has involved very significant adjustment for the sector, particularly considering the high volatility of world sugar prices. As an example, the international price of white sugar went from USD 295 per tonne in December 2008 to USD 876 per tonne in July 2011, and again down to USD 306 per tonne in August 2018.

The two-year duration of low prices is particularly difficult for farmers, as there is no longer a minimum beet price. Even if value-sharing clauses have been integrated into a number of agreements between growers and sugar producers, beet growers claim that beet prices have generally decreased to a point where continued beet production is compromised.

Graph 1 EU, London 5 and New York 11 prices between 2010 and 2019 (EUR per tonne)



² The average EU prices is based on invoices of sugar selling contracts, which tend to be signed for long periods; therefore, the price reflects a market trend that dates back several months and it falls short of capturing recent changes in trends.

Table 3 EU sugar balance sheet

<i>million tonnes wse June 2019</i>	2017/18 (EU28) (provisional)		2018/19 (EU28) (provisional)	
	Sugar	Isoglucose	Sugar	Isoglucose
Beginning stocks	2.17	0.03	2.42	0.03
Production	21.35	0.60	17.62	0.60
Imports	1.84	0.01	2.26	0.01
as such	1.29		1.70	
in processed products	0.56		0.56	
Total availability	25.4	0.64	22.3	0.64
Consumption/disappearance	18.04	0.57	17.52	0.56
Exports	4.90	0.05	3.25	0.05
as such	3.35		1.70	
in processed products	1.55		1.55	
End stocks	2.42	0.03	1.53	0.03
Total outlets	25.4	0.64	22.3	0.64

During the discussions at the High Level Group, most Member States identified low prices as the key element seriously undermining the profitability of sugar production in the EU and consequently its future. They emphasised that this is taking its toll, with a risk that beet growers might switch to other products and the fact that the losses incurred by most sugar producers have led to the announced further closing of several production facilities in Germany, France and Poland.

Member States with sugar refineries also warned against the negative consequences of low prices on the refining activity and called for support for a more balanced market. Three Member States, mainly smaller producers (HR, IT, RO) highlighted the harmful effect of surplus sugar from most competitive EU producers on prices in their national sugar markets, to a point where their domestic production might disappear.

Sugar producers and beet growers explicitly considered the current situation is a real crisis. They also noted that, according to their calculations, the price decline has caused them a loss of some EUR 2 billion since the end of the production quotas. They argue that, in view of the fact that the prices of products containing sugar has not changed to reflect these raw ingredient price changes, such amount must have been to the benefit of sugar users, retailers and consumers.

On the other hand, five Member States (DK, SE, UK, NL, DE) argued that the increase in production and price reduction are logical consequences of the reform and that the EU sugar production needs to go through this unavoidable process.

In addition to the current difficult situation, Brexit is another threat for the EU sugar market. The EU-27 is a net exporter of sugar to the UK, some 227,000 tonnes are imported from the UK and 513,000 tonnes are exported to the UK on average, mostly from France, which makes for a net EU-27 trade slightly below 300,000 tonnes. In case of a withdrawal of the UK from the EU without an agreement, the UK has announced tariffs on white sugar (EUR 150 per tonne of white sugar). This would greatly reduce or eliminate the current bilateral net trade surplus, which would need to be absorbed by the EU market.

The difficult situation has been mainly the combination of two factors: (1) because of its increased exporter status, the EU sugar sector is now more aligned with the world market displaying sustained bearish characteristics, and (2) the abundant EU sugar availabilities stemming from record production - due to increased areas and exceptionally high yields, putting heavy pressure on EU prices. The EU sugar sector needs to continue adapting to the post-quota environment, and this not only includes the need to better adjust production to market forces but also to acquire the risk management instruments allowing the stakeholders to deal with a such a highly volatile market.

In this context, it should also be noted that bioethanol is closely linked to the sugar sector. Total EU production of bioethanol is about 65 million hectolitres per year of which about 23% is sugar/beet based while the bioethanol production absorbs around 7% of EU sugar production.

3 MAIN ISSUES IDENTIFIED BY THE HIGH-LEVEL GROUP

3.1 Market management measures

3.1.1 Discussions in the HLG on market measures

At the HLG, eight Member States (BE, HR, HU, IT, AT, PL, RO, ES) requested the application of market measures, in particular Private Storage Aid (PSA), on the grounds that the situation of the sugar sector is unsustainable. In fact, some had already requested the activation of market measures during 2018. These Member States have underlined the role that sugar production plays and the consequences that the closing of sugar factories would have on the economy of the sector and in particular in certain rural areas, where the socio-economic role of the sugar sector activity is considered crucial.

In contrast, six Member States (DK, DE, NL, PT, UK, SE) defended the idea that the sector needs to be given further time to adjust to the market and the introduction of market measures would be inappropriate at this stage.

The representatives of stakeholders also had diverging points of view on this matter. Beet growers, sugar producers and the trade unions advocated for market measures. In particular, beet growers consider that both PSA and derogation from competition rules were necessary, while sugar producers requested the reintroduction of public intervention for sugar. In contrast, sugar users stated that market measures would only delay the capacity of the sector to adapt to market signals.

Beyond any cost considerations, throughout 2018 the European Commission has consistently argued that market support measures would not necessarily support the transition to the new post-quota environment; any market measure at this relatively early stage would weaken the incentive for adaptation to market signals, which is ultimately the goal of the reform. In any case, if PSA was granted, it can be expected that most quantities benefitting from the measure would be stocked in the most competitive Member States, where the major stocks are located.

Five Member States (DE, ES, FR, IT, PL) pointed at Article 222 CMO as a possible tool to reach a more balanced sugar market, as its application would allow for an

improved management of the supply. Five Member States (ES, HR, SK, PL and PT) highlighted the possibility of using exceptional measures provided for under Articles 219 and 221 of Regulation (EU) No 1308/2013.

3.1.2 Analysis of market measures available to the sugar sector

Several instruments are available to tackle difficult market situations in the agricultural sectors covered by the Common Organisation of the Markets (CMO) Regulation. PSA is specifically available for sugar, while there are other generally available measures to mitigate against market disturbance provided for in Article 219, the measures to resolve specific problems in Article 221 or the possibility established in Article 222 to allow for derogations from competition law.

Aid for private storage (PSA): PSA may be granted, (Article 17 CMO) to respond to particularly difficult market situations or economic developments having a significant negative impact on the margins of the sector. If granted at the right moment, PSA can contribute to balance the market and stabilise prices for white sugar of EU origin.

Due to the annual production cycle of sugar, operational sugar stocks are quite large during most of the time; on average, EU stocks in the hands of producers are above 6 million tonnes during two thirds of the marketing year, and ending stocks do not go below one million tonnes. This implies that, to have an effect on the market, PSA should be granted for a substantial quantity (more than 1 million tonnes to be stored under the regime) and for a sufficiently long period (until the end of a given marketing year). Otherwise, the measure would merely subsidise sugar producers' regular storage costs.

The quantities under PSA would become available again as from the beginning of the following marketing year to incentivise production reduction and/or in anticipation of a recovery in market demand and prices. For the former to be effective, the timing of granting PSA is crucial and the launch of the measure should coincide with or precede the period of signing new sowing contracts, i.e. in autumn. Otherwise, PSA would mainly move sugar surplus from one marketing year to another, and with it most likely put pressure on market balance and prices.

The efficiency of the scheme might also be affected by the fact that sowing contracts between beet growers and sugar producers are often concluded for longer periods, i.e. for two to three years. This practice, however, may change in the coming years to allow the sector to be able to react more quickly to market forces.

Measures against market disturbance (Article 219 CMO): Under Article 219 CMO, measures necessary to address the market situation may be adopted in the form of delegated acts. What may trigger that action must be market disturbance or a threat thereof (in particular, but not exclusively, due to price rises or falls) that are likely to continue or deteriorate. It may be taken where any other measures available under the CMO Regulation - that would particularly refer to PSA in the case of sugar - appear to be insufficient. The measures in question may extend or modify the scope, duration or other aspects of other measures provided for under the CMO Regulation, and may also provide for entirely new measures.

Measures to resolve specific problems (Article 221 CMO): Article 221 CMO allows the European Commission to adopt implementing acts taking necessary and

justifiable emergency measures to resolve specific problems. The measures may derogate from the provisions of the CMO Regulation only to an extent and for a period that are strictly necessary, in any case for a period not exceeding twelve months. Furthermore, the measure in question must be taken "to resolve" the specific problem in question.

Article 221 may be used if it is not possible to adopt the required emergency measures in accordance with Article 219 and does not require market disturbance or a threat thereof. The "specific problem" one wants to address may therefore lie in another reason, which prevents the objectives of the CAP from being attained.

Article 222 CMO (derogation from Article 101(1) TFEU): Article 222 CMO authorises the European Commission to exempt, via implementing acts, recognised producer organisations (POs) supply management agreements from the application of competition law in case of a severe imbalance in a market. Competition law normally disallows such agreements between producer organisations as they are liable to reduce competition. Article 222 also covers such agreements entered into by recognised associations of producer organisations, recognised inter-branch organisations (IBOs) and also farmers' associations. Beyond production planning, other types of supply management agreements, like market withdrawal, private storage or specific orientation of output – like e.g. for bioethanol production – could also possibly be covered under Article 222 CMO, while collective bargaining or price-fixing activities would not. In any case, action under this Article does not generate expenditure for the EU budget.

Granting any such derogation would require an accurate preliminary assessment on whether the market imbalance could be defined as severe, and this includes an examination of all the elements of the sugar balance sheet as well as of the price situation. To be really effective, it would also require the participation of the large majority of both beet growers and sugar producers. The current number of recognised organisations (POs or IBOs) covering these two links in the value chain is limited in most sugar producer Member States. The extension of rules is not provided for in this case, so individual growers and sugar producers might decide not to participate in the agreements reached under the derogation.³

3.1.3 Conclusions and recommendations on market measures

With stocks expected to fall and a forecasted area reduction for next year, any measure to withdraw sugar from the market appears inappropriate unless other elements may create market disturbance. This does not mean that the available market measures could not be used in the future.

In view of the above, the HLG

- *acknowledges the specificity of the transition period and the fact that the sugar market is still in the process of finding a new balance;*

³ Article 164 of the CMO provides for the extension of rules under which a Member State has the possibility to enforce, for a limited period of time, the decision/concerted practice agreed within a representative recognised producer organisation/association of producer organisation/interbranch organisation on other operators not belonging to them.

- *considers available regular market instruments mismatched to deal with the specific market situation experienced during this transition period;*
- *requests the European Commission to further examine the possibilities for other market measures, in particular those which are offered by Article 222 CMO in view of the structure of the sugar sector;*
- *urges the European Commission to continue to closely monitor the development of the sugar market.*

3.2 Voluntary Coupled Support in the sugar sector (VCS)

3.2.1 Discussions in the HLG on VCS

During the discussions of the HLG, two strongly opposing positions were expressed in relation to the impact of the VCS for sugar beet on the EU sugar market:

All Member States granting VCS for sugar beet (PL, RO, IT, EL, ES, CZ, FI, HU, LT, SK, HR) consider it an important tool for stabilising farmers' income in a sector facing difficulties, in view of avoiding a significant decrease/complete stop of their domestic sugar production in areas sensitive for socio-economic and environmental reasons.

Thus, five Member States using VCS (ES, RO, EL, IT, HR) stressed the importance of the sector in offering job opportunities to the low-income population in rural areas. Given the strong dependency between farmers and sugar producers, a significant and prolonged price reduction would lead farmers to abandon sugar beet cultivation, lead to the closure of sugar factories and, ultimately, depopulate rural areas. Four Member States (HR, SI, CZ, RO) emphasised the environmental benefits of this crop; i.e. the role of sugar beet in crop rotation.

Moreover, taking into account the current market conditions, the decrease in income of sugar beet growers and the danger of production abandonment, these Member States consider that is necessary to maintain VCS for sugar beet for the next programming period 2021-2027.

On the other hand, six Member States not granting VCS for sugar beet, (DE, AT, SE, NL, DK, UK), underlined that the measure distorts competition by artificially maintaining sugar beet cultivation in less efficient and competitive areas. This hampers the creation of a level playing field in the EU and negatively affects those Member States with a competitive sugar sector who are not granting VCS. Consequently, these Member States called for eliminating VCS for the sugar beet sector after 2020 or, at least, for imposing more restrictive conditions. In addition, they expressed doubts about VCS having a positive impact on increasing the competitiveness and/or the long-term sustainability of the sector in the VCS countries. In their view, the European Commission should carry out an evaluation of the coupled support's impact on sugar sector's competitiveness and sustainability in the context of its increased market orientation.

Five Member States (DE, DK, UK, NL and AT) underlined that further discussions are necessary on this particular aspect of the European Commission's proposal on the future CAP reform.

3.2.2 Analysis of CAP instruments of income support

Direct payments are largely decoupled (EU28 average: around 90%) but, under certain conditions, the Member States may decide to use a limited share of their annual national ceiling for direct payments to grant VCS.⁴

VCS is an optional scheme, therefore the decision to implement, or not, voluntary coupled support lies solely with the Member State Authorities. In principle, the European Commission does not approve/reject notifications and Member States remain solely responsible for the decisions they have taken within the framework of the CAP. A specific procedure (also subject to specific pre-conditions) exists by which the European Commission approves or rejects Member States notification when VCS represents more than 13(+2)% of their national envelope.

The granting of VCS is subject to conditions and limits in order to mitigate the risk for market distortion and thus ensure that the advantages outweigh the risks. Thus, 21 sectors, including sugar beet, may be potentially eligible for receiving VCS. The support is also subject to a strict budgetary limit at Member State level, i.e. maximum 8/13% (+2% for protein crops) of their national envelope. Within this budgetary limit, each measure is subject to a financial ceiling that is binding. Moreover, Member States have to ensure that there is no accumulation of support/double funding under other similar support instruments.

VCS is not a crisis measure; it aims to help sectors/types of farming affected by long-term/structural difficulties and which are considered important from an economic, environmental or social point of view. Its purpose is not to increase production; it is designed as a 'production limiting scheme', according to which the support rate shall be proportionally decreased if the number of supported hectares grow (and vice versa) at Member State level.⁵

In the period 2015-2019, eleven Member States⁶ decided to grant VCS for sugar beet for an amount that fluctuates around EUR 180 million per year. This places sugar beet as the fifth most important sector overall and the second most important area based sector. However, the allocated amount represents a relatively small part (i.e. 4.3%) of all VCS allocations and only 0.4% of the direct payments overall budget.

⁴ See Chapter 1 of Title IV of Regulation (EU) No 1307/2013.

⁵ See Article 52(6) of Regulation ((EU) No 1307/2013.

⁶ Lithuania decided to grant VCS only starting 2017.

Table 4 Evolution of sugar beet area and average unit amounts paid in the period 2015-2017 (implementation data)

	2015				2016				2017			
	Area paid (ha)	Reference area (ha)	Total amount paid (EUR)	Amount (EUR/ha)	Area paid (ha)	Reference area (ha)	Total amount paid (EUR)	Amount (EUR/ha)	Area paid (ha)	Reference area (ha)	Total amount paid (EUR)	Amount (EUR/ha)
CZ	57,480	62,400	16,618,217	289	60,486	62,400	16,637,400	275	66,104	62,400	16,403,999	248
EL	4,703	13,367	2,461,084	523	5,296	13,367	3,816,594	721	6,377	13,367	4,518,062	708
ES	35,370	40,100	16,460,331	465	31,781	40,100	16,687,868	525	35,965	40,100	16,396,940	456
FI	12,392	14,820	981,551	79	11,537	14,820	982,636	85	11,856	14,820	982,264	83
HR	13,652	23,000	2,746,248	201	15,019	23,000	3,064,495	204	19,210	23,000	2,843,480	148
HU	14,344	20,200	7,485,090	522	14,290	20,200	7,451,359	521	17,097	20,200	7,625,477	446
IT	37,605	62,266	16,606,729	442	31,974	62,266	16,434,170	514	37,446	62,266	16,224,461	433
LT*									18,264	19,200	1,470,278	80
PL	161,917	187,982	81,226,478	502	178,535	187,982	81,083,223	454	226,045	211,340	80,949,194	358
RO	22,331	29,300	17,510,783	784	22,259	29,300	17,437,511	783	25,298	28,100	20,168,878	797
SK	21,557	20,429	7,967,344	370	21,467	20,429	8,019,515	374	22,329	20,429	7,976,607	357
TOTAL	381,350	473,864	170,063,855	446	392,645	473,864	171,614,772	437	485,991	515,222	175,559,640	361

Source: Member State reports to the European Commission via CATS

The above table shows the development of area under VCS and confirms that sugar beet areas are generally below their historical levels, except for Poland⁷, the Czech Republic and Slovakia, where they have exceeded the reference areas (by less than 10%). The average unit amount paid decreased from EUR 446 per ha in 2015 to EUR 361 per ha in 2017.

The European Commission has assessed the completeness and consistency of the notifications transmitted by Member States in relation to the VCS measures implemented. Bilateral contacts took place where necessary when information was found incomplete or unclear. Moreover, conformity clearance procedures took place where potential non-compliances with the relevant EU legal framework, mainly in terms of the justification for support need, were identified. None of these conformity procedures confirmed the existence of such non-compliances for the sugar beet sector.

An impact assessment, including all coupled support measures, has been carried out in the context of its CAP post-2020 reform legislative proposals.⁸ It concluded that coupled support could address specific issues that the decoupled payment would otherwise leave unresolved but identified also certain implementation related shortcomings, in particular for the sugar beet sector:

- Coupled support is questionable when it is used, as in the sugar sector, to compensate for the lack of competitiveness of a whole country (and not a

⁷ The 2017 reference area increase for Poland results from an enlargement of the population targeted by the measure, i.e. all Polish sugar beet growers, including those not covered by the production quota in the reference period 2009-2013.

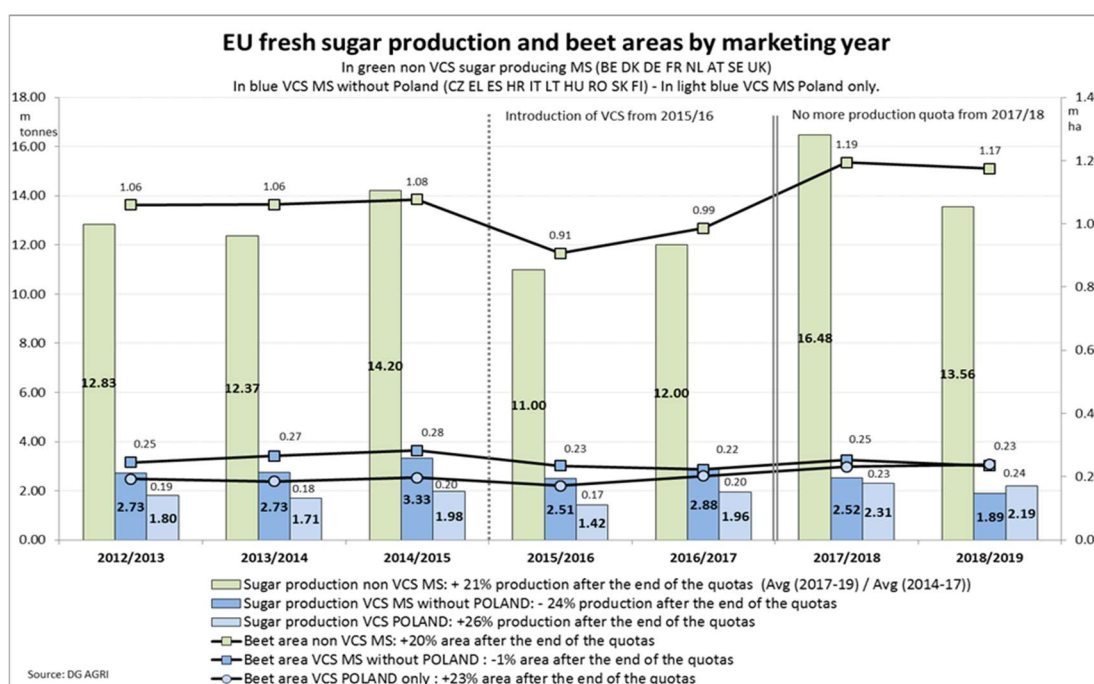
⁸ European Commission Staff Working Document SWD(2018) 301 final - Impact Assessment accompanying the Proposal for a Regulation of the European Parliament and of the Council establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans).

specific territory). In such cases, Member States have put forward the socio-economic dimension of the support, which helps maintain employment in the related processing industry, however without addressing the structural issue.

- Coupled support introduces elements of unfair competition between Member States. In the sugar sector, the aid granted in 2015 ranged from EUR 100 per ha in Finland to EUR 800 per ha in Romania, which are substantial differences in aid levels.

More recent developments are illustrated in the graph below.

Graph 2 Area and production for Member States using VCS⁹ excluding Poland versus the other sugar producing Member States



In Member States not using VCS, the area cultivated with sugar beet increased by 20% and production by 21% after the end of the quota system. In Member States granting VCS the overall area increase was much more moderate with an increase of 9%, while production even decreased by 5%.

In other words, the 9% increase in the cultivated area on average across Member States granting VCS has not been sufficient to prevent a decline of sugar production post quota. Poland's contribution is by far the highest to the above-mentioned increase.¹⁰ Thus, without Poland, the remaining ten Member States reduced their area cultivated with sugar beet by 1% and production by 24% in 2017/18. Although the reasons for this situation may be complex and worthy of further analysis, it

⁹ VCS applies from 2015 onwards (i.e. the last four market years presented in the graph).

¹⁰ In the first marketing year post quota, the area cultivated with sugar beet in Poland has increased by 14.2% and sugar production increased by 18%.

clearly indicates an overall lower competitiveness of the sector in most Member States granting VCS.¹¹

In the European Commission's legislative proposal for the post 2020 CAP reform, the possibility of granting coupled support for the sugar beet sector is maintained. It continues to be an optional area of intervention, with a large degree of subsidiarity given that eligibility conditions specific to each measure are to be set by the Member State.

However, in view of the above, the main changes compared with the current period 2014-2020 are:

- The coupled support decisions shall arise from (and thus be justified by) the SWOT analysis and needs assessment.
- The supervisory role of the European Commission is reinforced as coupled support is part of the CAP Strategic Plans that are subject to the European Commission's approval.
- Coupled support income still target sectors or specific types of farming that undergo difficulties and are important from economic, social or environmental point of view. It shall also address these difficulties by way of improving their competitiveness, their sustainability or their quality.

3.2.3 Conclusions and recommendations on VCS

There are sharp differences among the members of the HLG as regards the impact of VCS on the EU sugar market. Member States granting coupled support consider this an important tool for ensuring the survival of the sector in the context of its economic difficulties and risk of complete production abandonment while most Member States not granting VCS claim that the measure distorts competition and hampers the creation of a level playing field in the EU.

Different studies and evaluations demonstrate that, on the one hand, VCS can address specific issues that the decoupled payment would otherwise leave unresolved whereas, on the other hand, VCS may affect relative competitiveness and level playing fields in the EU. In addition, it is said to have a very limited effect on competitiveness and sustainability of primary production and industries.

The European Commission's legislative proposal for the post 2020 CAP reform, maintains the possibility of granting coupled support for certain sectors, including for sugar beet, provided that they undergo difficulties. Its use shall be justified by the SWOT analysis and need assessment. It also introduces that the aim of the coupled support is to address these difficulties by improving the competitiveness, sustainability or quality of the targeted sectors.

This change aims at addressing previously identified shortcomings related to coupled support. Moreover, being part of the Member State's CAP Strategic Plan,

¹¹ In this context, PL considers that the analysis should include decoupled direct payments and their varying levels in different Member States.

the coupled support decision would also be subject to European Commission approval.

Against this background, the HLG requests the European Commission to continue:

- *to closely monitor the justification of the use of VCS in case of difficulties,*
- *to examine that the ceiling for each VCS measure notified by the Member State is established,*
- *to ensure the use of clear and objective criteria,*
- *to prevent overcompensation of farmers in certain regions/Member States;*

Member States most critical about the use of the VCS (DE, DK, UK, AT, NL) made explicit reference to the on-going CAP reform discussions on the viability of the instrument to ensure the long-term resilience of the sector.

3.3 Contractual relations between growers and processors

3.3.1 Discussion in the HLG on contractual relations

During the HLG discussions, and in submitted written contributions, eight Member States (BE, CZ, FI, FR, HU, PL, RO and ES) indicated that, with the end of the production quotas, contractual relations between beet growers and beet processors have worsened. These Member States claim the need for a better balance of the bargaining power between the two groups in view of reinforcing the growers' position. One Member State (PL) considers that it is necessary to increase the bargaining power of sugar beet growers by allowing for collective negotiations of sugar beet prices in the framework of agreements within the trade. The same Member State would like to see more transparency in sugar beet prices as well as value sharing clauses. Some highlighted the need for more transparency in the functioning of the value-sharing clauses, which are widely applied but do not always ensure that farmers obtain a reasonable share of sugar market price. Eight other Member States (AT, HR, DK, DE, LT, SK, SE and UK) indicated that contractual relations and value-sharing clauses continue to work, some of them underlining close cooperation between beet growers and processors within existing interbranch structures. In their view, the current legal basis is sufficient and actors in the value chain are better placed to decide their contractual arrangements.

In contrast, the representatives of beet growers consider the end of quotas has changed drastically the contractual regulatory framework and weakened their position. They highlight the loss of bargaining power and deteriorating conditions for beet delivery resulting from the abolition of the minimum beet price.

Furthermore, beet growers claim that it has become more difficult to negotiate agreements within the trade collectively under the new legal framework because of the voluntary nature of the value sharing clauses, the lack of transparency of such clauses and the lack of clarity and delayed determination of final prices paid for beets. In this context, growers request the European Commission to analyse periodically the implementation of the contractual framework and the outcome of

value-sharing clauses. They also were in favour of promoting a greater role for producer and grower organisations in collective negotiations.

The representative of sugar producers argued that sugar market prices do not allow sugar producers to pay better prices or to grant better delivery conditions to beet growers. Sugar producers welcome the end of the quotas, which allows beet growers to optimise their return per hectare as sugar beet entered in direct competition with other crops. Sugar producers consider the current sugar-specific legal framework provides a far-reaching bargaining power to growers even if agreements within the trade cannot involve collective negotiation of selling beet prices as was the case in the past.

3.3.2 Analysis of policy framework for contractual relations in the sugar sector

Before the end of the quotas, on September 30, 2017, the contractual framework in the sugar sector was conditioned strongly by the production limits, which ensured relatively high domestic prices for sugar in spite of the progressive reduction of the reference threshold since the 2006 reform. The existence of a regulated minimum price for sugar beet combined with the compulsory character of value-sharing clauses in agreements within the trade led, in practice, to compulsory collective negotiations of beet prices. The former agreements within the trade laid down, in particular, rules on how any difference between the reference threshold and the actual selling price of the sugar was to be allocated between the sugar undertaking and beet sellers.

The post-quota sugar contractual framework (Article 125 of Regulation (EU) 1308/2013, hereafter “CMO Regulation”, together with Annex X CMO Regulation) provides that the purchase prices for the quantities of beet are laid down in the delivery contracts between individual beet sellers and each sugar undertaking.

Sellers of beet and the sugar undertaking can also agree on a value-sharing clause. Value-sharing clauses may determine how any evolution of relevant market prices of sugar or other commodity markets is to be shared between beet sellers and the sugar undertaking, including market bonuses and losses. The possibility of agreeing value-sharing clause is no longer explicitly part of the agreements within the trade collectively negotiated by growers’ associations but voluntary and negotiated between each sugar undertaking and the beet sellers concerned (European Commission Delegated Regulation (EU) 2016/1166). The current agreements within the trade are compulsory and sugar undertakings shall notify them to the Member States but there are no obligations to notify their content to the European Commission. Nevertheless, stakeholders have reported the more important contractual elements and issues in the post quota context:

- Delivery contracts have been mainly signed for two or three years, which did not provide sufficient flexibility to adjust beet area downwards after the record production year in 2017/18;
- The use of fixed beet prices in contracts was no longer common. Instead, most of the contracts linked beet prices to the selling price of sugar by the undertakings and, while in some of them the beet price could only fluctuate within a limited range (safe model), in most cases the beet price could deviate from a central pivot level without any limits;

- In some cases, the conditions for the delivered beet exceeding the contractual volume were not fixed at all or were only fixed after delivery and dependent on the sugar price;
- An increasing share of contracts do not specify the value of the pulp, which is considered included in a global beet price, despite the provisions of Annex X to the CMO Regulation;
- A tendency to make growers bear parts of transport costs to the factory (formerly fully assumed by sugar undertakings).

Overall, according to several industry and European Commission experts these trends tend to transfer too high a share of the market and price risks to the beet growers.

Beyond the sectoral legal framework for beet delivery contracts provided for in its Annex X, the CMO Regulation allows farmers to strengthen their bargaining power. Thus, under Article 152(1a), recognised Producers' Organisations (POs) can collectively negotiate supply contracts, including the sugar beet delivery price, on behalf of their members in derogation from the Union competition rules. However, this option is currently not widely used in the sugar sector and some Member States the creation of POs may be challenging.

In the context of the CAP reform, the European Commission proposed that Member States will be able to include sectoral interventions for the sugar sector in their National Strategic Plans, which would allow recognised POs to set-up and run operational programmes to better adapt to market conditions.

3.3.3 Conclusions and recommendations on contractual relations

As for other market aspects, the sugar sector is still in transition to the post quota context and operators need to adjust their contractual strategies. A more flexible approach with part of the production assured with long-term supply conditions and another part covered by annual contracts could be a better strategy to respond to short-term changes in market conditions.

The new legal framework has modified the former balance in the contractual relations between beet growers and processors, and may have weakened the bargaining position of beet growers. Experience of the first post-quota contracts suggests that growers have assumed an increasing share of the sugar market risk.

In a more volatile market environment, a more balanced sharing of market risks and even bargaining power to negotiate beet prices are key factors to find for a more stable and resilient EU sugar market.

Therefore, the HLG

- *invites beet growers and Member States to make full use of the possibilities of the current CMO Regulation to strengthen farmers position in the value chain;*

- *in view of the future CAP Strategic Plans, encourages national administrations to consider the possibilities of promoting POs in the sugar sector;*
- *pleads for more and better information on the functioning of value-sharing clauses, e.g. by exploring the possibility of including notification provisions for such clauses and for agreements within the trade in the ongoing revision of Regulation (EU) No 2017/1185.*

3.4 Risk management tools in the sugar sector

3.4.1 Discussions in the HLG on risk management

During the HLG discussions, all Member States have emphasised that the high price volatility in the post-quota period has had a negative impact on farmers' income and has led to cash-flow constraints preventing investments in competitiveness. However, no Member State declared the actual implementation of risk management tools, including the Income Stabilisation Tool, to mitigate income risks.

The existing CAP risk management tools are considered satisfactory by the vast majority of the Member States. However, two Member States (PL, NL) emphasised the increased role of risk management tools in tackling market risks, including in the sugar sector, and asked for an analysis of the appropriateness of the existing risk management tools available in addressing the production, price and income risks affecting the sugar beet growers. One Member State (PL) is of the view that it is necessary to introduce more efficient risk management tools to address, in particular production, price and climate related risks. Two Member States (SE, DK) consider that the risk management is primarily the task of the individual farmer / farmers' unions. Three Member States (FI, SE, ES) consider necessary to continue the discussions on the Commission's proposal concerning the mandatory implementation of risk management tools under the rural development funds (in their view it may divert resources from other, even higher priority CAP objectives).

The representatives of the sugar beet growers highlighted the absence of management tools addressing the significant price volatility faced by farmers and asked for the introduction of the Income Stabilisation Tool in the beet sugar sector.

3.4.2 Analysis of the risk management tools under CAP

Several analysis were carried out on this topic, among which the most recent are:

- The 2017 European Commission “Study on risk management in EU Agriculture”;¹²
- The impact assessment accompanying the post 2020 CAP legislative proposals of the European Commission (SDW(2018) 301 final).¹³

¹² <https://publications.europa.eu/en/publication-detail/-/publication/5a935010-af78-11e8-99ee-01aa75ed71a1>.

Although neither the study nor the impact assessment provide detailed information about the risk management implementation at the level of different agricultural sectors, their findings are also valid for the sugar sector. They give insight into the actual limited use of risk management tools at EU level, the obstacles preventing a more extensive use of them and how these obstacles could be overcome.

As complement to direct payments and market safety net systems to support farmers' income, CAP risk management tools financially compensate farmers for unexpected and significant production/income losses. These tools are financed through the Rural Development Programmes (RDP). For the 2014–2020 period, almost EUR 2.6 billion have been allocated on risk management tools, expecting to cover 214,500 farm holdings. At least one risk management tool was included in the RDPs of Italy, France, Romania, Portugal, Hungary, Croatia, the Netherlands, Lithuania, Latvia, Estonia and Flanders (Belgium regional programme). All of these Member States programmed risk management tools for production losses, whereas Italy and Hungary also programmed tools for income losses.

Insurance premiums on production risks are projected to receive EUR 2.3 billion, while this amount corresponds to EUR 125 million for mutual funds on production risks and EUR 116 million for the Income Stabilisation Tool. However, the share of CAP budget spent on risk management is still very low, as it represents only 2% of the Pillar II budget and 0.4% of the total CAP budget for the 2014–2020 period.

There are also large differences in the share of farmers covered by these measures. The following four risk management instruments are available for the 2014–2020 period:

- (1) *Insurances*: Crop insurance has a long history and plays a significant role compensating yield losses caused by climatic risks in the EU. In several Member States, such as Germany, well-established and long-lasting private insurance systems are in place, covering the classic production risks. Subsidised insurance contracts under CAP are currently implemented in Croatia, Estonia, France, Italy, Latvia, Lithuania, Hungary, the Netherlands, Portugal, Romania and Flanders (Belgium). Other Member States have chosen national subsidised insurance schemes under the state aid rules (Austria, Bulgaria, Czech Republic, Spain, Poland, Portugal and Slovenia). The availability of public support explains these variations.
- (2) *Mutual funds*: Hungary has implemented a financial support scheme of mutual funds to compensate for production losses caused by adverse climatic events under state aid rules for many years. In the context of CAP funds, only three Member States have opted for financial support for mutual funds to compensate production losses due to climatic, sanitary and environmental events (France, Italy and Portugal). France has programmed EUR 24 million of expenditure, Italy EUR 97 million and Portugal EUR 4 million for the period 2014-2020. Only France has actually implemented this instrument while Italy has taken preparatory steps for its actual implementation..

¹³ <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:52018SC0301&from=EN>.

- (3) *The Income Stabilisation Tool (IST)*: For the period 2014-2020, only two Member States programmed to include IST in their Rural Development Programmes. Italy and Hungary planned respectively EUR 97 and EUR 19 respectively. To date, however, none has implemented an IST yet.
- (4) *Sector-specific IST*: In the context of the review of the 2014-2020 Multiannual Financial Framework (MFF), the European Commission proposed enhancements to the IST. Considering that farmers are exposed to increasing economic risks and those risks do not affect all agricultural sectors equally, Member States have the possibility to help farmers with a new sector-specific income stabilisation tool, in particular for sectors affected by severe income drops.

Overall, the current CAP risk management tools are not extensively used, especially when it comes to addressing income risks. Insurance contracts for production risks have been historically known and to some extent available in the sector, whereas mutual funds and IST are comparatively new concepts. This explains the currently higher implementation rate of insurance contracts.

Therefore, despite European farmers exposure to a wide range of risks, the availability and use of risk management instruments lags behind for reasons of limited experience and awareness and budgetary obstacles. Causes of low uptake of EU risk management schemes include too stringent World Trade Organization Green-Box requirements (e.g. relatively high loss thresholds to receive compensation), budget unpredictability, lack of farm-level data, unfamiliarity of stakeholders with novel tools, the likelihood of ex post public support reducing incentives for an ex-ante risk management approach at farm level.

Other obstacles are observed both on the supply side (e.g. availability) and the demand side (e.g. lack of awareness, risk profile, expectations of disaster relief). On the supply side, the legislative and institutional framework is important in the choice of Risk Management Tools. In some cases, these measures call for a change or shift in the existing national or regional legislative and institutional frameworks. This is for many Member States an obstacle to overcome, as it could imply high administrative costs and requires sufficient implementation capacity and skills. On the demand side, the availability of ad hoc and ex-post payments in most Member States reduces the perceived needs for other risk management tools. Farmers are perceived to mostly rely on these payments and are reluctant to use other types of instruments such as insurance or mutual funds to cover their risks. To clarify the real risk exposure for farmers and as a basis for their demand for risk management tools, more transparent information exchange on risk management options at farm level is needed, as well as clear communication on the cases where other more systematic disaster relief mechanism will be activated.

European Commission's post 2020 CAP legislative proposals include further improvements related to the risk management tools in view of enhancing the resilience of the farming sector, while empowering farmers to risk-proof their businesses:

- Financial contributions to premiums for insurance schemes or mutual funds would be mandatory for Member States, with a view to strengthen the tools at the disposal of farmers.
- The loss thresholds leading to the activation of these tools would be reduced.
- Member States would decide on the definition of specific conditions and eligibility rules. Such flexibility would enable Member States to combine, in a complementary way, EU-level, national and private interventions.
- In their CAP intervention strategy, Member States would have to identify and assess specific needs in relation to risk management and provide an explanation as to which interventions will contribute to ensure a coherent and integrated approach to risk management.
- An EU-level platform on risk management would be set up to help create an enabling environment, while modernising and simplifying the tools' implementation.

3.4.3 Conclusions and recommendations on risk management

Recent developments indicate that European farmers will have to deal with more risks in the future. Greater exposure to global markets and emerging new risks such as those linked to climate change (e.g. higher frequency of extreme weather events or of disease outbreaks) have implications for future incomes.

Direct payments are an important mechanism to support and stabilise income and with it, mitigate exposure to risk. In addition, the current CAP proposes a detailed system for managing risks and its uptake needs to be improved; in particular with regard to marketable tools (insurance, mutual funds and IST), taking into account risk management options offered by the private sector or via other state aid schemes. There are also large differences among Member States and their regions in how they implement the available instruments and the range of tools the farmers have at their disposal to mitigate their risks.

Therefore, the HLG

- *urges all relevant actors to intensify and strengthen (market) risk management systems in regions where insufficient risk management strategies in the sugar sector have been observed;*
- *to support the above, recommends to the European Commission to initiate a comprehensive review on possible strategies for improving the long-term market resilience of the EU sugar sector, including on the use and effectiveness of risk management tools.*

3.5 Market transparency

3.5.1 *Discussions in the HLG on market transparency*

During the first two meetings of the HLG, many participants underlined that recent sugar price decline is not reflected in the price of downstream activities. Therefore, there was a consensus among Member States about the need to increase the sugar market's transparency by the European Commission collecting and making available more information on the sugar sector, in particular the price transmission in the downstream part of the food supply chain, i.e. to processing industries, the retail sector and consumers.

Market transparency is considered a key factor to improve market conditions by increasing access to relevant information for decision-making. For instance, better knowledge of price transmission helps farmers during contract negotiations and promotes better relations along the food chain.

Representatives of main industry stakeholders expressed opposite views about how to improve the current market information system.

For farmers, the future EU average price notification should distinguish prices of sugar sold at retail level (i.e. in small packages), for the food industry and for other industrial uses (bioethanol, chemical, pharmaceutical, fermentation or yeast industries). In addition, sugar spot prices are needed in order to get updated information for contracts, as well as ethanol and isoglucose prices. There is also interest on consumption data (quantities). As regards the timing of information, the time lag in the communication from Member States delays the assessment of EU market trends and, in their view, weakens the EU's market monitoring capacity.

For sugar producers, the sugar sector is transparent as far as the primary processing stage is concerned. In their view, the same degree of transparency should be applied to the secondary processing stage and retailers in order to ensure that consumers have access to processed products at a fair price and improve the balance along the supply chain.

For sugar users, more information on stocks is necessary, as sugar users do not store sugar, only producers. Spot prices are deemed important, as well as export prices. There is now a stronger correlation between the EU average market price and the world price. Monitoring exports, volume and sales, will be essential to understand the drivers of the market. Reducing the time lag of data communication was also underlined. However, for sugar users, collecting average prices of sugar containing products would be meaningless as the cost of the sugar ingredient is small compared to the overall cost of production and distribution. Furthermore, in their view, excessive price transparency can reduce operators' negotiating capacity and restrict competition.

3.5.2 *Analysis of market transparency arrangements in place*

The current regulatory framework finds its basis in Article 223 of the CMO Regulation (1308/2013) that states that the European Commission may adopt the necessary measures for the communication of data by undertakings and Member States, including the aim of improving market transparency and managing the market in agricultural products. Delegated Regulation (EU) No 1183/2017 and

Implementing Regulation (EU) No 1185/2017 determine these data communication requirements. The European Commission, through its Market Observatories, dashboards, the agri-food data portal and other publications, disseminates relevant information to promote informed decision-making.

In relation to the sugar sector, DG AGRI publishes monthly updates of production, trade and price data based on data collected from Member States. In particular, the average EU sugar price notification of the Member States is based on the prices indicated in the invoices issued upon delivery of the goods. Recently, regional EU prices for three main regions have been added in order to increase insight into regional market developments (e.g. between deficit and surplus regions), while ensuring compliance with the confidentiality rules. However, there is a time lag of several months between the signature of the contract and the invoices related to it being issued. Therefore, prices notified by Member States, are relevant in terms of past price developments but less so in terms of providing an up-to-date market pulse. From June 2019, also sugar beet prices will be collected annually, based also on Member State notifications.

In the European Commission's Management Committees, Member States receive extensive information, with monthly updated data on balance sheets, stocks, imports, exports, isoglucose production, as well as international prices, and forecasts on world production and consumption. There is also available information on ethanol production.

The Sugar Market Observatory¹⁴ was launched in 2017 as a discussion platform to assess the sugar market situation, based on the positive experience of Milk and Meat Market Observatories and following the recommendations on market transparency of the Agricultural Markets Task Force. The members of the Economic Board represent a maximum of 14 organisations from all the different economic actors in the whole chain. The selection of the appropriate experts is prepared via an open Call for Applications.

In addition, in 2014 the European Commission decided to replace the Advisory Groups with the Civil Dialogue Groups. The CDGs are an important tool in the policy elaboration process, including in assessing the situation of agricultural markets.

Finally, Eurostat publishes information on prices of high-sugar content products, such as ice cream, sugar confectionary, chocolates and soft drinks, through indexes at EU level based on information by Member States.

To sum up, public information is available, but it does not cover all relevant aspects of the market. In particular, there is a lack of data from downstream activities, such as sugar users and retailers. Empirical assessments¹⁵ show that vertical price transmission between ex-works to retail price in the EU sugar market has clear asymmetry towards price increases, therefore is far from achieving complete efficiency.

¹⁴ https://ec.europa.eu/agriculture/market-observatory/sugar/reports/meeting-reports_en.

¹⁵ Price transmission in the sugar sector, Areté 2012.

3.5.3 Conclusions and recommendations on market transparency

Market transparency is a key element for the agricultural sector as it improves the bargaining power of farmers during contract negotiations creating a more level playing field along the food chain. A more market-oriented agriculture in the EU relies on information in order to adapt and respond to demand changes, increasing the competitiveness and resilience of European farmers. Besides, market transparency helps build trust between actors and it represents a societal demand from farmers, workers and consumers. However, some Member States (DE, NL, AT, RO, DK) highlighted the potential negative impact of excessive or asymmetric market transparency on sugar producers, and the need for a cost/benefit analysis of this initiative.

The main current shortcomings identified by HLG are the time lag in sugar price reporting and lack of information on price transmission in the downstream parts of the supply chain. A planned Market Transparency Initiative aims to address the main issues identified by the HLG in its legal proposal.

Against this background, the HLG recommends to:

- *explore the possibility to pursue the planned Market Transparency Initiative for enhanced sugar notifications on prices and quantities for a wider variety of products, including a new system of prices that distinguishes between short-term and long-term contracts, buying prices from sugar users, and more detailed information on quantities sold to different users (i.e. food industry, non-food industry) while ensuring its cost effectiveness as well as the respect of the data protection and competition rules.*

3.6 The ban of neonicotinoids for sugar beet production

3.6.1 Discussion in HLG on the ban of neonicotinoids and emergency authorisations

The ban of plant protection products, in particular neonicotinoids for beet protection, was an issue extensively discussed by Member States during the HLG. In particular, one group of Member States (BE, CZ, FI, PL, RO, ES) identified the ban of neonicotinoids as harmful for the sector, as it has the potential to affect costs and yields substantially, with possible unwanted negative environmental effects due to the increased use of older protection products, taking into account that there are currently no alternative products available on the market.

For another group of Member States (FR, DE, NL, UK), who have banned their use, the emergency authorisations of neonicotinoids are a major cause of unfair competition within the EU sugar sector. They considered that the emergency authorisations of plant protection products containing non-approved active substances creates unfair advantage for sugar farmers compared to those Member States not granting such authorisations. In their view, it is crucial that beet growers face the same conditions across the EU.

For stakeholders, the ban of neonicotinoids is an important aspect. Grower representatives complained that the ban of neonicotinoids is not based on positive

scientific studies and evidences but only on the precautionary principle. The ban affects productivity and competitiveness of the EU sugar sector and creates additional problems for already troubled farmers. For processors, the ban on neonicotinoids aggravates the problems of the sector in relation to third countries, as this ban does not affect sugar imports to the EU.

3.6.2 *Analysis of the ban of neonicotinoids and emergency authorisations*

In 2013, the European Commission severely restricted all uses of plant protection products containing three neonicotinoids (clothianidin, thiamethoxam, imidacloprid) on outdoor plants that were considered attractive to bees. In 2016, the European Food Safety Authority (EFSA) identified further risks to bees from additional data submitted by the authorisation holders. Consequently, in 2017 the European Commission proposed to ban all field uses (including sugar beet) of these three neonicotinoids. This proposal was discussed in several meetings of the Standing Committee on Plants, Animals, Food and Feed in 2017 and January 2018. Supported by EFSA's last report in February 2018, which reviewed further new scientific evidence, a qualified majority of the Member States agreed on these proposals.

The Pesticides Regulation 1107/2009¹⁶ provides for the possibility that Member States can grant authorisations for uses of substances not approved at EU level (so-called “emergency authorisations”), if strict conditions are fulfilled, in particular if there is a danger to plant health that cannot be controlled by any other reasonable means, including non-chemical measures. The period of authorisation is limited to 120 days. When granting such an authorisation, the Member State must inform immediately the other Member States and the European Commission, providing detailed information about the situation and any measures taken to protect consumer safety. The authorising Member State must duly justify the emergency authorisation, but does not require the European Commission’s approval.

Since 2013, several Member States have repeatedly granted authorisations under Article 53 of the Plant Protection Product regulation for the three restricted neonicotinoids for the same uses, covering large parts of their territories. By May 2019 and since May 2018, notifications for emergency authorisations of products containing neonicotinoid active substance in sugar beet had been received from eleven Member States: Belgium, Spain, Lithuania, Hungary, Austria, Poland, Romania, Slovakia, Finland, Croatia and Denmark.¹⁷¹⁸

¹⁶ Article 53 (1) Regulation 1107/2009.

¹⁷ The Swedish authorisation has been cancelled following an order from a national Court.

¹⁸ In May 2019, Denmark notified four emergency authorisations for neonicotinoids on sugar beet.

Table 5 Emergency authorisations for sugar beet (status May 2019)

Member State	Number of Emergency Authorisations for neonicotinoids	Sugar Beet
1. Austria	3	3
2. Belgium	7	5
3. Spain	1	1
4. Croatia	1	1
5. Finland	3	3
6. Hungary	6	1
7. Lithuania	3	1
8. Poland	5	2
9. Romania	6	1
10. Denmark	4	4
11. Slovakia	1	1

Given that restrictions for uses on sugar beet apply for the first time in the planting season 2019, some Member States resort to emergency authorisations for the neonicotinoids for sugar beet, as they need more time to find other suitable plant protection products or find other solutions. However, that will be less plausible in 2020.

Experience with the earlier restrictions for the three neonicotinoids has shown that several Member States have repeatedly issued emergency authorisations for the same crops in subsequent years. In 2017, therefore, the European Commission asked EFSA to assess whether the repeated authorisations granted in 2017 fulfil the requirements in Article 53. EFSA concluded that this was not the case for about one third of the authorisations. Consequently, the European Commission has asked the Member States concerned to commit not to grant these again. While two responded positively, for the other two the European Commission is preparing legally binding decisions preventing them from repeating these emergency authorisations.

3.6.3 Conclusions and recommendations on the ban of neonicotinoids and emergency authorisations

During the meetings of the HLG, there was no consensus among its members regarding the use of emergency authorisations. For some Member States, it was a necessary measure due to lack of available substitutes, while for others it has distorting effects in the EU sugar market. The European Commission monitors the use of emergency authorisations and has highlighted repeatedly that it must be regarded as a temporary measure for an exceptional situation. It is not intended to be repeated for several years.

Against this background, the HLG

- *concludes that the European Commission should gain better oversight about emergency authorisations granted by Member States, given the high number and the severe criticism about them from the European Parliament, NGOs and the farming sectors in those Member States who are disadvantaged;*

- *recommends to strictly control emergency authorisations for neonicotinoids and take legal action if justified (in line with Article 53 of Regulation (EC) No 1107/2009);*
- *invites stakeholders and public authorities to intensify research activities in Member States and at EU level to develop alternative plant protection products and techniques for the sugar sector;*
- *highlights the unequal playing field relative to third countries which continue to authorise neonicotinoids in beet production and who export sugar to the EU and request the European Commission to promote European standards for plant protection products at international level.*

3.7 International trade and other players at the world market

3.7.1 Discussions in the HLG on international trade aspects

Member States attached great importance to the international aspect of the sugar sector during the meetings of the HLG. Eight Member States (BE, CZ, FR, IT, NL, PL, SK, ES) regarded international markets as a source of distortion and unfair competition. There is a common perception that sugar-producing third countries, in particular India, are subsidising their sugar sectors, causing world prices to plummet. In addition, as expressed by members of the HLG, many third countries do not follow the highly developed EU plant protection system, which severely restricts the use of plant protection products. In this sense, working conditions and environmental concerns were cited as a source of unfair competition. Lastly, the limitations of the current regulatory framework on new breeding techniques in the EU does not apply to third countries. One Member States in particular (ES) stressed the idea of reciprocity in international trade while two Member States (PL, SK) consider that measures were necessary at EU level in order to promote exports of sugar to third countries and to protect the EU sugar market from excessive imports.

There were also considerations for the ongoing FTA negotiations with Mercosur or Australia, in which sugar plays a key role. There was opposition from two Member States (BE, SK) to new concessions to these countries on market access for sugar, as the EU sugar market is already considered very open to imports.

However, for Member States with cane sugar refining facilities (BG, PT, FI and UK) the access to raw materials at reasonable prices was critical for the viability of this industry. These countries deemed necessary a reduced tariff for raw cane sugar to support sugar cane refining in the EU.

For stakeholders, the positions were also divided between beet growers and sugar producers, against more openness with third countries in the sugar sector, and sugar refiners and users, advocates of freer access to raw materials. Beet growers asked for a level playing field with third countries, as they cannot compete against countries using plant protection products banned in the EU or granting export subsidies. Sugar producers considered it necessary to put an end to one-way trade agreements with no concessions to the EU and to protect the EU market against distorted world markets and subsidised imports. Meanwhile, sugar refiners and

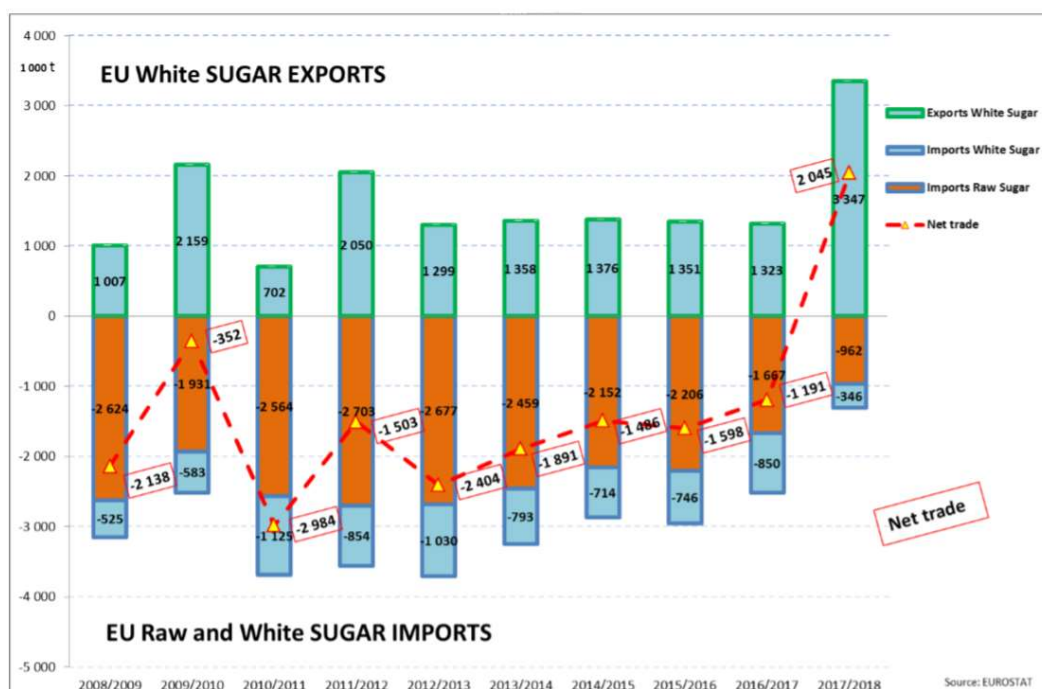
sugar users demanded a reduction of import tariffs to balance competition and to add diversity to an increasing concentrated market.

3.7.2 Analysis of on EU trade policy and international trade aspects

After the end of the quota system, many forecasts highlighted that the EU would become and remain a net exporter. Exports have increased by more than 2 million tonnes, from 1.3 million tonnes to 3.4 million tonnes in 2017/18 (+144%). Destinations of EU sugar focus on the Mediterranean area: Egypt (16%), Israel (11%), Syria (7%), Turkey (5%), Lebanon (4%) and Libya (3%).

In contrast, imports to the EU have dropped substantially from 2.5 million tonnes during marketing year 2015/16 to 1.3 million tonnes 2017/18 (-48%). Main origins of imports are EPA/EBA countries (42%), followed by Central America, Colombia, Peru (19%), South Africa (19%), Brazil (6%) and the Balkans (2%). Therefore following the end of the EU quota system increased EU exports and reduced imports has resulted in 3.2 million tonnes of sugar that need to find a new market place on the world market.

Graph 3 EU sugar trade from 2008/09 to 2017/18



The current EU sugar trade architecture is the result of a complex series of previous agreements made by the EU and its Member States, Tariff Rate Quotas (TRQ) resulting from agreements under WTO rules (EU Schedule), Free Trade Agreements (FTAs) signed by the EU (see Table 4&5) and the European Partnership Agreements with ACP Countries (EPA) as well as the "Everything but Arms" (EBA) initiative for Least Developed Countries. For all other imports, the Most Favoured Nation duties apply, which amount to EUR 419 per tonne for white sugar, and EUR 339 per tonne for raw sugar.

Only EPA/EBA countries have unlimited access at zero tariff to the EU, in the context of aid for development. However, at current price levels these countries find

it difficult to compete. During the first two years post-quota, EPA/EBA imports plummeted more than 60%, from 1.3 million tonnes in the marketing year 2016/17 to less than 520,000 tonnes in 2017/18. This is a measure also of the increased competitiveness of the EU sugar industry, in large part due to the previous reforms.

Table 6 EU Tariff Rate Quotas in the context of the WTO

	2015/16		2016/17		2017/18	
	Quota	% Use	Quota	% Use	Quota	% Use
Australia EUR 98 per tonne	9,925	100%	9,925	0%	9,925	0%
Brazil EUR 98 per tonne	334,054	96%	353,554	30%	334,054	0%
Cuba EUR 98 per tonne	68,969	99%	68,969	100%	68,969	0%
Erga omnes EUR 98 per tonne	253,977	100%	262,977	97%	289,977	11%
India EUR 0 per tonne	10,000	100%	10,000	99%	10,000	100%
Brazil EUR 11 per tonne HR accession					78,000	29%
TOTAL	676,925	98.0%	705,425	62%	790,925	8%

Table 7 EU Tariff Rate Quotas in the context of bilateral agreements

	2015/16		2016/17		2017/18	
	Quota	% Use	Quota	% Use	Quota	% Use
Colombia EUR 0 per tonne	67,580	96%	69,440	95%	71,300	65%
Peru EUR 0 per tonne	23,980	100%	24,640	100%	25,300	9%
Central America EUR 0 per tonne	163,500	67%	168,000	100%	172,500	100%
Panama EUR 0 per tonne	13,080	0%	13,440	0%	13,800	0%
PERU & CENTRAL AMERICA	268,140	74%	275,520	94%	282,900	78%
Ecuador 15 000 t Raw EUR 0 per tonne					15,450	8%
Ecuador 10 000 t White + High Sug content EUR 0 per tonne					10,150	1%
ECUADOR					25,600	5%
South Africa 50 000 t R+W EUR 0 per tonne			50,000	84%	50,000	99%
South Africa 100 000 t R EUR 0 per tonne			100,000	100%	100,000	100%
SOUTH AFRICA			150,000	94%	150,000	100%
BALKAN - Albania EUR 0 per tonne	1,000	0%	1,000	0%	1,000	0%
BALKAN - B. & H. EUR 0 per tonne	12,000	100%	13,210	96%	13,210	90%
BALKAN - Serbia EUR 0 per tonne	181,000	98%	181,000	93%	181,000	17%
BALKAN - North Macedonia EUR 0 per tonne	7,000	0%	7,000	0%	7,000	0%
Balkan - TOTAL	201,000	94%	202,210	89%	202,210	21%
Ukraine EUR 0 per tonne	20,070	100%	20,070	100%	20,070	85%
Moldova EUR 0 per tonne	37,400	177%*	37,400	92%	37,400	75%
TOTAL Bilateral Agreements		526,610		685,200		718,180

* No TRQ limit for Moldova, but a triggering mechanism of bilateral consultations

For imports under "EU Schedule TRQs", a similar trend is visible. The use of WTO quotas declined from 98% in 2015/16 to 8% and also the Balkan quotas have experienced an important decrease.

For on-going FTA negotiations, Mercosur is the most advanced, and Brazil has strong offensive interests in sugar. In addition, Australia is pushing for more access to the EU market during the current negotiation. As in previous FTAs, the EU considers sugar a sensitive product in these negotiations.

As regards international markets, a limited number of countries, such as Brazil, India and Thailand, play a dominant role in world price formation. The level of protection of the EU sugar market from these countries is high. However, they affect world prices, thus indirectly putting pressure on EU prices.

World production in 2017/18 reached record levels in most of these countries, including the EU, creating a world surplus. India has considerably increased production, and for the first time reached similar levels as Brazil. For 2018/19, India likewise has announced a surplus production. While Brazil's regular surplus may be directed to sugar or ethanol production depending on sugar and oil prices, India does not have this flexibility yet and has opted to sell this growing surplus (5-7 million tonnes each year) on world markets, forcing prices down.

India is accused of not respecting its obligations under WTO rules for granting domestic support as well as incentives for export. The Australian Government presented a counter notification on Indian sugar support policies in the WTO in the autumn of 2018. They argued that support granted by India to its sugar sector goes beyond its agreed limits for domestic support (10% of Value of Production- *de minimis*). Each season the Government of India sets the Fair and Remunerative Price for sugarcane as defined in the Sugarcane Order (1966). This price is an administered price that effectively acts as a floor for sugar mills to pay to farmers. In addition, farmers are paid premiums for increased efficiency and some growers are eligible for additional payments under specific State programmes. A number of sugarcane producing States in India have instituted a higher State Advised Price, which creates even further distortions in the market. Moreover, sugar mills in India are assigned a mill-specific Minimum Indicative Export Quota. Under this system, sugar mills must export an allocated amount of sugar by the end of each season. The total amount that mills are mandated to export has increased from 2 million tonnes in 2017/18 to 5 million tonnes in 2018/19, leading to substantial pricing pressures on world market prices.¹⁹ Actual exports out of India may be less than the 5 million tonnes fixed for 2018/19.

In March 2019 Brazil, Australia and Guatemala requested consultations with India on their support to sugar, claiming that the domestic support as well as the export incentives goes beyond the limits for India. Consultations are the first step in the WTO dispute settlement procedure before the establishment of a panel. Consultations should take place within 30 days following the request. Consultations have taken place with all three countries, the last with Guatemala on 22 May. If no agreement is reached between the parties within 60 days, formal panel procedures can be launched. India refused the EU's requests to join in the consultations in all three cases. India can do so in the consultation phase, but not in the following panel process. Due to the recent elections in Australia the internal procedure to launch a panel has been delayed. Should the establishment of a panel be requested by the three countries, the EU plans to participate as third party. A conclusion of a panel could take up to three years. As of 1 December 2019, the Appellate Body of the WTO Dispute Settlement Body will cease to function, which could have a bearing on the outcome of the panel.

3.7.3 Conclusions and recommendations on international aspects

The international aspects of the sugar market were extensively discussed during the HLG. There was a consensus among beet growing Member States that some global players are distorting the market, by means of subsidies that artificially cause world prices to fall. There were also concerns about the high degree of access to the EU market for third countries particularly regarding the on-going discussions on new

¹⁹ Measures concerning sugar and sugarcane. Request for consultations by Brazil, WTO, 5 March 2019.

FTAs. However, several Member States where sugar refining facilities are located, underlined the need to ensure access to raw materials at reasonable cost to ensure the survival of that activity.

Therefore, the HLG

- *asks the European Commission to maintain the status of sensitive product for sugar and ethanol in negotiations with major sugar producing countries while preserving the right balance between the interests of beet sugar producers and the EU cane sugar refineries;*
- *recommends that the EU becomes Third Party in the procedures against India in the WTO and acts to take part in other potential cases against unfair trade or domestic support practices by third sugar producing countries;*
- *asks the European Commission to analyse the distortions arising from the divergent regulatory regimes on the use of plant protection products and to bring forward proposals to correct this.*

3.8 EU funding for research and innovation activities

3.8.1 Discussions in the HLG on EU funding of research and innovation activities

Five Member States (NL, DK, UK, PL, AT) indicated that further Research & Innovation (R&I) is needed, among others in the area of the climate resilient farming, adapted varieties and the availability of suitable plant protection products. Some emphasised the environmental benefits of the sugar beet cultivation mainly in terms of crop rotation and CO₂ absorption. One Member State (FR) has emphasised the importance of the bioethanol production and further diversification of the sector's activities. In the view of one Member State (NL) more R&I is also necessary for further diversifying and improving production processes, developing new products and distribution channels for sugar related products and by-products.

Beet growers' representatives request EU funding for R&I to mitigate the negative effects of the recent ban on neonicotinoids, while the sugar producers' representatives called for more investment in the research and innovation activities that will facilitate the reorientation of the sector towards alternative bioenergy and other bio-based markets (bio-chemicals, biomaterials).

3.8.2 Analysis of the available EU funding for research and innovation

Within the current legal framework, funding for Research and Innovation activities in the agricultural area is available under the EU research and innovation programme "Horizon 2020" as well as under the Rural Development Programmes (RDPs).

Horizon 2020, is the largest source of public funding for research and innovation at EU level with a budget of around EUR 3.7 billion for the Societal Challenge 2

(SC2) on 'Food security, sustainable agriculture and forestry, marine, maritime and inland water research and the bioeconomy' for 2014-2020.

Within the framework of European Innovation Partnership for Agricultural Productivity (EIP-AGRI) about 1 000 Operational Groups (OPs) cover innovations in a number of fields, including plant protection, climate and climate change, water management and bioeconomy.

The two policies complement each other: the European Innovation Partnership for Agricultural Productivity (EIP-AGRI) under the rural development policy is helping to build bridges between research and practice while practice-oriented formats under Horizon 2020 may provide innovative ideas to operational groups.

The call on Sustainable Food Security launched under Horizon 2020 research and innovation programme puts particular emphasis on a better understanding of the impact of climate change and on the design of suitable adaptation strategies.

Financing is also made available for research and development activities to reduce the reliance on the use of pesticides while maintaining the competitiveness of EU's agriculture as well as activities giving farmers broader access to the existing knowledge on integrated pest management (IPM) and help them to incorporate IPM solutions in existing agricultural systems. Bio-based sectors, already offer alternative markets for sugar and bioethanol. According to the estimations of the European Chemical Industry Council (CEFIC), the total volume of organic raw materials used by the chemical industry in 2015 amounted to 77.7 million tonnes, of which about 10% (7.8 million tonnes) were renewable. Out of the renewable raw material, sugar and bioethanol account for an important part of the quantities. This provides opportunities for increasing the environmental benefits of the sector.

To promote research and innovation in the bio-based sector, the European Commission created a dedicated EU public-private partnership, the Bio-Based Industries Joint Undertaking (BBI JU), with an overall budget of EUR 3.7 billion. This initiative has been instrumental in the development and deployment of new bio-based value chains, based on the use of renewable resources. A relevant example is project PULP2VALUE (processing underutilised low value sugar beet pulp into value added products) which aims at providing additional outlets to beet production in new cross-sectorial value chains with various industries, including the chemical and food industry.

3.8.3 Conclusions on EU funding of research and innovation activities

Important amounts are available for the funding for research and innovation activities under the Rural Development programmes (RDPs), the EU research and innovation programme "Horizon 2020" and the BBI JU. The proposed EU Budget for 2021-2027 (i.e. the future Research Framework "Horizon Europe"), proposed reserves EUR 10 billion for research and innovation in food, agriculture, rural development and bioeconomy. Although no statistics are available on how many projects financed under Horizon 2020, Rural Development Programmes and BBI JU are linked to the sugar sector, there are many financing opportunities and many projects focusing on cross cutting issues that could indirectly benefit the sugar sector or provide a starting point for further activities.

Therefore, the HLG

- *stresses the need to ensure sufficient funding for research and innovation activities in the agri-food and bioeconomy sector for the next multi-annual financial period;*
- *invites all stakeholders and Member States concerned by sugar and sugar beet innovation challenges, to make full use of the financing of research projects at EU and national levels, in particular in view of enhancing its environmental benefits, given the substantial increase in EU budget dedicated to food, agriculture, rural development and bioeconomy in the next multiannual financial framework;*
- *encourages the active involvement of stakeholders in the establishment of research programme priorities, both at national and EU level, in order to ensure that sugar sector's specific needs (i.e. adaptation to the climate change, extreme weather conditions, finding suitable alternatives to the banned neonicotinoids etc.) are duly taken into account.*

3.9 Socio-economic aspects of the EU sugar sector

3.9.1 Discussions in the HLG on socio-economic aspects

For several Member States (BG, CZ, HR, IT, ES, AT, PT) the economic reasoning of markets and production is not enough to fully assess the viability of an agricultural sector. In their view, other aspects should be taken into account, and the social dimension of the sector must be one of them, particularly important for rural areas. They also mentioned the fact that once production is lost in a region, is very hard to reinstall it. A viable sugar sector is directly and indirectly through related activities critical to maintaining farmers and industrial employment in less developed regions, often under-populated. In this context, one Member State (BG) stressed that the current situation of cane sugar refineries may also have socio-economic repercussions. One Member State (PL) is concerned about a further concentration in the EU sugar sector and its economic and social consequences..

The representatives of trade unions asked for financial support for the professional re-orientation of employees made redundant by factories closure or providing compensation of any negative social consequences suffered by them, where re-orientation is not feasible. Representatives of the sugar producers made a similar request and asked for support for situations when factories closures are the direct consequence of sector's adaptation to a more market-oriented environment.

3.9.2 Analysis of the socio-economic aspects of the EU sugar sector

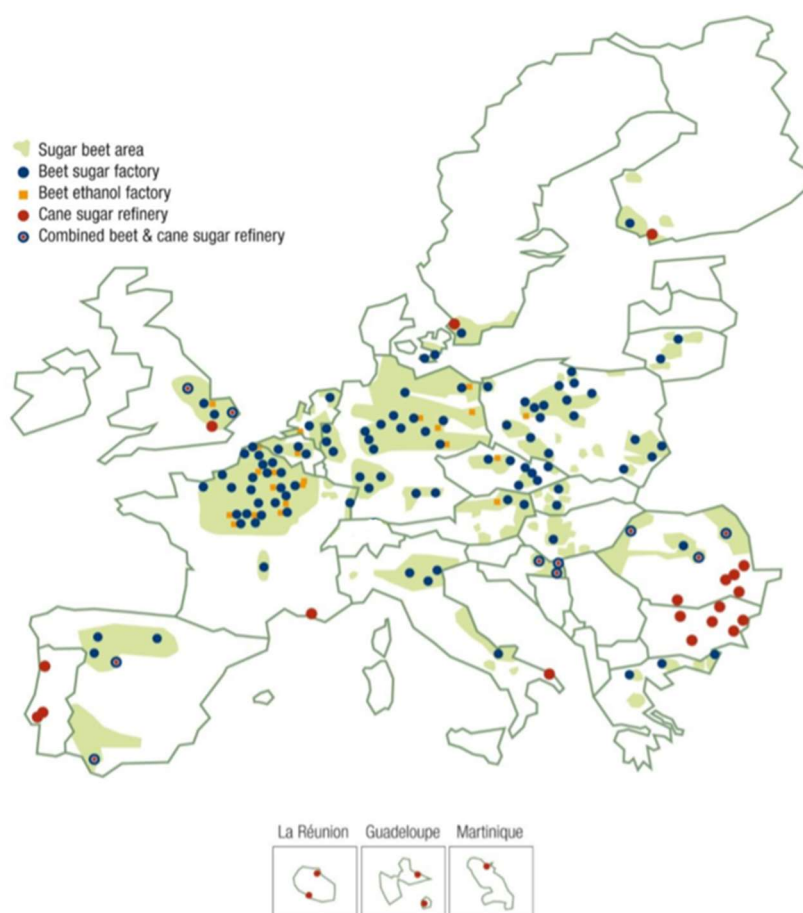
Sugar beet cultivation has traditionally been one of the most remunerative crops on the plant rotation system. Its cultivation area in the EU represents 1.6 million hectares and 140,000 farmers depend on it as a main source of income. Sugar beet is produced in 19 countries in the EU, ranging from 27,000 beet growers in France and Germany, to 7,000 in Italy, 6,000 in Spain and Austria, 600 in Finland or 200 in Slovakia and Hungary.

The sugar beet sector is highly concentrated at regional level (see map below). Beet sugar factories are never far from beet cultivation areas and mainly located in rural

areas, being often one of the few industrial activities and employment possibilities in those areas.

In terms of industrial employment, beet sugar production only takes place during a limited period. Sugar factories try to extend producing campaigns in order to maximise production capabilities and reduce fixed costs. The producing campaign varies from one region to another, between 90 to 150 days, although the average campaign was 132 days in 2017/18 (95 days in 2007/08). During this period, 29,000 workers were employed by the beet sugar industry in the EU, predominantly in the main producing regions.²⁰ Additionally, there are 4,500 workers employed in the cane sugar refining sector.²¹ Finally, there are different up- and downstream activities linked to the industrial facilities, such as transport activities, subcontractors, machinery suppliers, etc.

Graph 4 Location of sugar production in the EU in 2015²²



The 2015 socio-demographic analysis of the European Sugar Sector by EFFAT and CEFS, based on interviews covering 76% of the sugar workforce in the EU, shows that 80% of all staff in the sugar industry works under a permanent contract, and only 11% are seasonal workers. It also reveals a predominantly male workforce

²⁰ CEFS Sugar Statistics Marketing Year 2017/2018.

²¹ ESRA Study on Raw Materials in the EU Sugarcane Sector.

²² Socio-demographic analysis of the European Sugar Sector, CEFS-EFFAT, 2015.

(80%) overall, but a high representation of women working at managerial, professional, technician and associate positions (50%). It is an ageing workforce with 25% aged 55 or above. Finally, 40% of positions could be considered white collar and technical job profiles.

Where further restructuring is unavoidable and factory closures will take place, the European Globalisation Adjustment Fund (EGF), may be used to provide support to workers made redundant because of major structural changes in world trade patterns caused by globalisation and whose redundancies have a significant adverse impact on the regional or local economy. By co-funding active labour market policy measures, the EGF aims at facilitating the return to work of workers in areas, sectors, territories or labour markets suffering from the shock of serious economic disruption.

A Member State can request support from the EGF in case of more than 500 redundancies resulting from major structural changes in world trade patterns due to globalisation or of global financial and economic crisis. In justified cases, in small labour markets, or remote regions, or in exceptional circumstances, applications may be submitted for a lower number of redundancies. However, the applicability of EGF measures to the current sugar market situation requires further analysis given that market access conditions did not change with the end of the production quotas.

3.9.3 Conclusions and recommendations on social aspects

Four Member States (CZ, ES, HR, IT) confirmed the importance of the sugar sector in terms of employment and regional cohesion during the HLG. Their first objective is to maintain production facilities in the regions and preserve rural employment in the longer term.

Against this background, the HLG

- *calls upon industry stakeholders and regional/national authorities, where necessary, to assess possibilities for diversification of sugar industrial facilities to develop new products, including the opportunities in the EU bioeconomy strategy;*
- *requests to make full use of support possibilities to widen the product portfolio and to maintain production facilities in rural areas;*
- *encourages regions/Member States concerned by factory closures to verify whether they would be eligible for support from the European Globalisation Adjustment Fund for sugar factory closures in the current economic context;*
- *acknowledges that Member States, especially in a crisis situation, may take appropriate measures, including legislative measures in line with State Aid rules, aimed at safeguarding the activities of the sugar industry when there is a risk of complete cessation of industrial activities/crop abandonment in the whole territory.*

4 OVERALL CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS

Since the end of production quotas on 30 September 2017, the EU sugar sector has had to adapt to new market conditions. While the sector had been restructured with support of EUR 5.4 billion in the framework of the 2006 EU sugar reform and reduced its production capacities significantly, the transition to a post quota market environment is still ongoing.

In the first year post quota, the EU sugar production the world market faced a substantial oversupply, including an increase in EU sugar production by 25%. This has led to a sharp drop of sugar prices at EU (and global) level, from which these have not recovered yet, despite a lower sugar production in 2018/19, falling stocks and reduced area for the upcoming marketing year. The High Level Group (HLG) acknowledges that this difficult market situation is closely linked to the transition and that the market still needs to find its new balance. It considers that regular market measures were mismatched to deal with this specific market situation. This does not mean that the available market measures could not be used in the future. In this context, the Group requests the European Commission to further examine the possibilities for other market measures, in particular those, which are offered by Article 222 of the CMO Regulation.

In addition, the HLG identifies the following issues being relevant for the EU sugar market: i) VCS, ii) contractual relations between growers and sugar producers, iii) risk management tools, iv) market transparency in the sugar supply chain, v) the recent ban on neonicotinoids and the use of emergency authorisation by certain Member States; vi) international trade dimension, and vii) EU funding of the research and innovation activities.

While Member States' views are convergent for most of them, they differ substantially on VCS and the use of the emergency authorisation on neonicotinoids. As regards VCS, a part of the HLG recognises the effectiveness of the tool in comparison to decoupled payments in regions, where sugar beet production is more difficult. Another part of the Group highlights the potential distorting impact on competitiveness and level playing fields in the EU. The HLG therefore requests the European Commission to closely monitor its implementation in view of mitigating its potentially distortive effects, and some Member States made explicit reference to the on-going CAP reform discussions on the viability of the instrument.

Likewise, HLG members have opposing views on the use of emergency authorisations for neonicotinoids. Member States that have granted such authorisations justify their use by the lack of suitable alternatives, while others consider this practice unacceptable because of its potentially distortive effect on the EU sugar market. Against this background, the HLG recommends the European Commission to strictly control the emergency authorisations for neonicotinoids and take legal actions, if justified, while inviting all interested parties to intensify the research and innovation activities to develop suitable alternatives.

Some HLG members do not exclude that the bargaining power of farmers has been weakened with the post-quota legal framework. Because of the importance to balance market risks and bargaining power among actors for a resilient EU sugar market, the HLG invites relevant stakeholders to consider all possibilities of the

current CMO Regulation to strengthen farmers' position in the value chain, including the promotion of creating Producer Organisations in the sugar sector.

The HLG agrees that market transparency is a key element for the agricultural sector as it improves market efficiencies, helps build trust between actors and represents a societal demand from farmers, workers and consumers. The main shortcomings concerning the existing system are perceived in the time lag of sugar price reporting and price transmission along the supply chain. Against this background, the HLG recommends to the European Commission to explore the possibility to pursue the ongoing Market Transparency Initiative for enhanced sugar notifications on prices and quantities, while ensuring its cost effectiveness as well as the respect of the data protection and competition rules.

In the context of EU farmers being confronted in the future with a greater exposure to global markets and emerging new risks, the HLG urges all actors to strengthen the risk management tools in regions with insufficient risk management systems in place. It recommends to the European Commission to initiate a comprehensive review on possible strategies for improving the long-term market resilience of the EU sugar sector, including the use and effectiveness of risk management tools.

The HLG considers that some global players are distorting the world market by means of irregular subsidies, and expresses concerns about the degree of access to the EU market resulting from new FTAs. In this context, its members asks the European Commission to maintain the status of sensitive product for sugar and ethanol in future negotiations while preserving the right balance between the interests of beet sugar producers and the EU cane sugar refineries. The HLG also recommends the EU to become Third Party in the procedures against cases of unfair trade or domestic support practices in third countries.

EU funding for research and innovation activities provide important funds, e.g. under the Rural Development Programmes and the EU research and innovation programmes. The HLG stresses the need to ensure sufficient funding for research and innovation activities in the agri-food and bioeconomy sector, invites all stakeholders to make full use of the available financing and encourages the active involvement of stakeholders in the establishment of research programme priorities, both at national and EU level.

Finally, a concern of the HLG is the socio-economic dimension of the sugar sector (i.e. in terms of employment and regional cohesion). The Group calls upon industry stakeholders and regional/national authorities, where necessary, to assess possibilities for diversification of sugar industrial facilities to develop new products, including opportunities in the EU bioeconomy strategy. It also stresses the need to make full use of all support possibilities to widen the product portfolio and to maintain production facilities in rural areas.

List of abbreviations

BBI JU	Bio-Based Industries Joint Undertaking
CAP	Common Agricultural Policy
CMO	Common Market Organisation
CMO Regulation	Regulation (EU) No 1308/2013 of the European Parliament and the Council establishing a common organisation of the markets in agricultural products
EIP-AGRI	European Innovation Partnership for Agricultural Productivity
EFSA	European Food Safety Authority
EGF	European Globalisation Help Fund
HLG	High-Level Group on Sugar
IPM	Integrated Pest Management
IST	The Income Stabilisation Tool
PO	Producers' Organisation
PSA	Private Storage Aid
R&I	Research and Innovation
RDP	Rural Development Programme
VCS	Voluntary Coupled Support