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EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

Directorate E – Markets
The Director (acting)

Brussels,
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MINUTES

MEETING OF

THE EXPERT GROUP FOR AGRICULTURAL MARKETS, in particular concerning aspects falling under the single CMO Regulation – Arable crops and Olive Oil

Joint with

MEETING OF CIVIL DIALOGUE GROUP ARABLE CROPS – SUGAR

25 February 2022

Chair: Michael SCANNEL, Director (acting)

Delegations present for Expert Group: All Member States were present, except Denmark, Cyprus, Ireland, and Luxemburg.

Delegations present for CDG: All Organisations were present, except Beelife, Birdlife, CEPM, ECVC, EBB, EURAF, Europa Bio, Fertilizers Europe and PAN EUROPE

1. Approval of the agenda and of the minutes of previous meeting

The agenda was approved and there was no previous meeting of the joint CDG-GREX (no minutes to approve).

2. Nature of the meeting

The meeting was non-public and took place virtually, through Interactio.

3. List of points discussed

3.1. Speech by Commissioner WOJCIECHOWSKI

The Commissioner addressed the joint meeting of the CDG-GREX and emphasised the importance of the sugar sector for the EU, the difficulties of the sector in the period after the end of the sugar quotas as well as the overall conclusions of the study on the adaptation strategies of the sugar supply chain after the end of the sugar quotas. The

Commissioner highlighted how the CAP and other EU policies can support the sector with the current and future challenges ahead.

3.2. Presentation of the Study

An expert of Areté presented the methodology, key findings and conclusions of the study.

COPA-COGECA (CIBE) asked for clarification on the way the resilience of the sector was assessed. According to COPA-COGECA, the study does not include clear indicators to measure resilience and does not indicate what would have been major casualties. A balanced supply and demand is a sign of resilience, but the study does not include a clear view on how to achieve that. The general conclusion that the sector is resilient and that the crisis is over does not resonate with sugar beet farmers, who have seriously suffered from low sugar-beet prices. The whole supply chain should have been analysed to assess the resilience after market liberalisation to uncover the losses on all sides of the sector. COPA-COGECA suggests also a more in-depth analysis on contractual relations, especially between sugar manufacturers and sugar users. Moreover, more research could be done on the market measures that were not used to date, to see how they can be adapted into functional tools to address future crises and the challenges of the sector.

Areté responded that the assessment indicators for resilience were agreed with the Commission and that these criteria are clearly mentioned in the report: economic viability of the main actors in the EU sugar supply chain and the availability of an adequate sugar supply in the EU. The conclusion that the sector is overall resilient does not mean that there were no serious challenges for the sector. For example, the study includes information on the production push by competitive producers that led to harm elsewhere in the sector. Yet, the study focusses on the sector as a whole, which was assessed as resilient. The analysis of the contractual relations is also included in the study. However, the study shows that there is a high diversity in arrangements between Member States and along the chain, making it difficult to provide ‘one-size-fits-all’ solutions for contractual relations. On the market measures available in the CMO that were not used to date, Areté explained that a fact-based analysis of these tools was not possible. The explanation of the Commission on why these tools were not used was convincing and no defects in the design were found. Therefore, these tools were categorised as ‘wait and see’.

In addition, COPA-COGECA posted a question to Areté in the chat box. It pointed out that beet area is not increasing in the EU despite the fact the world market prices are high. Areté responded that it is understandable that the sector is making conservative choices after a period of crisis.

FoodDrinkEurope (CEFS) pointed out that the study lacks of concrete means to measure resilience. Sugar producers have experienced a huge decrease in income. For example, Südzucker, who has production facilities in nine Member States, has seen a huge drop in share prices. This affects not only the company, but also the shareholders, which are usually sugar beet farmers. Input costs increase and lower returns affects the sector’s resilience in the future, because of reduced investment capacity. CEFS asked how risk management measures could be improved. It also pointed out that there is a need for clear trigger mechanisms for market instruments. The current reference price was set fourteen years ago and does not take into account inflation and economic developments.

FoodDrinkEurope (CIUS) stressed the importance of security of supplies for sugar users. The decrease in beet acreage is worrying and future supply shortages should be avoided. Achieving supply security requires being able to read the market signals. However, the current tools (forecast and price reporting) are not sufficient. With regard to forecasting, tools should be available to avoid future shortages. Five years after the quotas ended, CIUS does not consider the market as balanced. They believe in a free and balanced market, but instruments are needed to increase transparency. Forward prices for the EU market could make it easier to monitor the market.

Areté responded that the study looked into the possibility of a future price for the EU. There are tools available, but they are usually not publicly accessible. The future price that is publically available (London No 5) does not reflect the dynamics on the EU sugar market, according to the actors in the sector. However, developing a separate futures market for EU sugar only is challenging because the underlying supply base is limited, which a single player on the market can influence easily. A detailed answer can be found in Annex X, which can be requested to the Commission.

CEJA mentioned in the chat box that young farmers are facing many challenges such as increasing cost prices, loss of active ingredients, climate change and profitability of the farm. New breeding techniques and sufficient business income are key factors to tackle these challenges.

COPA-COGECA asked Areté a question on trade and FTAs in the chat box. According to COPA-COGECA the study states that FTA did not affect the sugar sector, but it does not demonstrate it and it does not corresponds with the JRC study on cumulative impact of FTAs, which considered the sector as vulnerable and found a negative impact on EU price. Areté responded that assessing the overall impact of all FTAs was not part of the scope of the study. It only looked at the concrete impact (if any) of new FTAs entering into for after the quota period.

In a short intermediary summary, Michael Scannell stressed that the European Commission acknowledges that the sector has gone through a difficult period and that individual companies and beet growers have suffered after the end of the quota. However, looking at the sector as a whole, the EU still has a resilient sugar sector that has proven to be effective and efficient.

3.3. Presentations by participants

France presented its views on the study outcomes. The drop in sugar prices at global and European level in 2018-2019 has weakened the sugar sector, although it was prepared for the transition to a more market-oriented environment. This makes it more difficult for the sector to address new challenges, for example the energy transition, decarbonisation, and the reduction in pesticides. France pointed to some solutions that could support the sector. Firstly, the French proposal on mirror clauses could align European trade policy with internal policies and environmental objectives. Secondly, diversification can make the sector more resilient. For example, bio-ethanol production could be developed to help balance the sugar market. Finally, to deal better with climate change and the environmental challenges ahead, new breeding techniques could be part of the tools. France proposed to go beyond adjustments of existing measures to be able to provide solutions to deal with the challenges ahead.

Austria gave an overview of the developments in their sector after the quota period. The sugar beet area decreased due to low prices and greater pressure from pests after the end of the quota system. In 2021 a trend reversal was observed. The sector is adapting and focusing in particular on contractual relations, fair cooperation between the sugar beet growers and the sugar processing company. National funds for research on pest and disease control have been set up. There is also a national insurance scheme for production risks. For Austria, sugar remains a sensitive sector. The availability of suitable plant protection products in combination with the reduction targets for pesticides lead to new challenges and the need for the development of suitable plant protection products. Market measures will be available within the new CAP. However, there could be a need in the future to assess whether the current CMO measures are suitable to address possible future challenges.

Italy presented how the Italian sugar sector developed after the quota period. The Italian sector ceased the opportunity of the sugar sector reform. Investments have been made to guarantee the survival of the sector and to make it competitive. Production costs have been reduced by 30% and are comparable to other Member States. The Italian sugar sector has invested in environmental sustainability. Organic sugar cultivation is now covering 2400 ha. Moreover, there is a National Integrated Production and Quality Production System managed by the Ministry of Agriculture with a participation covering 15 000 ha now, with the aim to reach 30 000 ha. The EU should monitor the sector in order to find tools to improve resilience and to avoid future crises. A High Level Group could be set up to identify appropriate measures.

Germany recalled that there was international pressure (WTO) to reform the sugar sector and that the reform has been based on a careful adjustment process during a long transition period. Regional problems might differ from the overall assessment of the study. In Germany’s view, the main shortcoming regarding market transparency was the lack of monitoring for short-term prices, but the Commission now also published spot market prices. New contractual relations along the whole value chain could improve some of the weak points in the sector, mainly by improving the position of farmers in the chain. Concerning international imports, the sugar sector is relatively well protected. Germany advocates a market oriented solution with fair competition, on the internal market and internationally. The German sugar sector was very critical on the study because of the soft wording on measures that are in place to deal with distortion of competition. Going backwards is not an option and future challenges need to be addressed. The tools in the new CAP will help the sector with this.

Poland gave a detailed overview of the impact of the end of quota on its sugar sector. The sector has been restructured and production has been concentrated more (20% reduction in growers and closure of one production plant). Beet area has increased because of the end of quota and there is competition among sugar producers to maintain their market share, while yields have decreased. Transparency of contractual relations need to be improved in Poland and there is a need to strengthen the bargaining power of growers. Production capacity is not fully used in Poland at the moment, but production of sugar increased in Poland, which led to an increase in exports. Coupled support is needed to keep production running in Poland, ending it could lead to a dependency on third country imports in the EU. Without coupled support, the income of sugar beet growers would not be sufficient. Other threats to the economic sustainability of the sector are: further liberalisation of imports; increased pressure of pests in combination with shrinking availability of plant protection products; and adverse weather events also threaten the sector. Poland agrees with the findings of the study, but regrets that the study does not offer more clear solutions to improve the resilience of the sector.

COPA-COGECA supported Poland's statement of the depleting toolbox of growers to deal with pests and diseases. They also stressed again the declining attractiveness of sugar beet cultivation when other crop prices are more attractive.

Bulgaria presented its views on the study outcomes. It confirmed that the economic viability of the structurally weaker parts of the sector were seriously threatened in the post-quota period. The study does not offer a clear answer to the situation of the sugar sector in deficit countries. Among other Member States, Bulgaria is a deficit country, which is dependent on raw cane sugar imports for their sugar production. As a net importer, the country cannot benefit from the risk managements tools, as they are focusing on beet sugar production. One of the main issues for the sector is that direct imports of raw cane sugar are not possible. Most of the deals are being done through intermediary trade companies and tenders. Due to the simultaneous examination of the TRQ it is difficult to predict how much will be allocated. Bulgaria proposes to regulate the access to raw materials for refiners in Member States where cultivation of sugar beets is not viable. Portugal supported Bulgaria's statements in the chat.

A delegate of COPA-COGECA (CIBE) presented the concerns of the sugar beet growers. First, CIBE noted that the sugar sector is extremely concerned about the developments around the current energy crisis and the war in Ukraine. The sugar sector is dependent on potassium fertilizers from Belarus and Ukraine. There is a lack of prospect for the sector as beet area is decreasing and the Green Deal is limiting the way in which growers can deal with current challenges such as increased pressures of pests. With regard to high prices for other crops, if prices for sugar beet do not increase, growers will stop cultivating beet. CIBE does not share the conclusions of the study and does not see the sector as resilient. It is difficult to make quick decisions as the sector works with less dynamic production factors (land, factories). The new CAP does not include the public intervention tool, which could have improved the prospects of beet growers. Risk management tools do not cover market crises and market risk is not the only challenge to be addressed. Phytosanitary risks and climate risks threaten the sector as well. Bio-ethanol could help limit some adverse effects and shows that the sector is part of the solution. The market itself does not help the growers to increase resilience. COPA-COGECA highlighted the key questions for sugar beet growers to be answered raised in their statement that was shared in the chat box.

The study has given a good overview of the sector according to a delegate of FoodDrinkEurope (CEFS). Some fields could be more emphasised such as the loss of an enormous share of the sector's profitability and the challenge of decarbonisation. Three years of losses has led to a decrease in investment capacity, making it more challenging for the sector to address future challenges, such as decarbonisation. Diversification can help, but cannot solve a long-term underperforming sugar sector: all parts of a company need to be healthy. Import and export parity determines the price of EU sugar, but production costs are determined by EU regulations. EU costs are much higher than in third countries. As such there is a minimal linkage between EU prices and EU production costs. Market transparency will not help to solve this, but better insight into consumption could help manage the market better. The crisis is not over in the sugar sector. Therefore, the sector needs investment capacity. Growers can decide to grow different crops, but sugar producers have no other choice to close factories when production is not viable.

A delegate of SACAR presented the organisation's views. It had no particular comments on the study but pointed out some main concerns for sugar traders. The role of sugar traders is to fill any supply gaps within the EU, moving sugar from surplus areas to deficit countries. Free movement of sugar should be ensured within the EU, also in times of crisis. Smooth trade is important for the resilience of the sector. Extra costs and additional barriers should be avoided or only implemented when really needed and after consulting the sector. Extra border controls to avoid tax evasion or origin labelling are examples of these additional barriers to intra-EU trade. For international trade, it is important to respond quickly to trade distorting measures. The Commission could have taken a more proactive role against the Egyptian import ban and Indian export subsidies for instance. In the development of new policies, which could possibly lead to new non-tariff barriers (Carbon Border Adjustment Tax or the deforestation Regulation) the impact should be analysed and stakeholders should be consulted before their implementation. The implementation should be user friendly (easy to understand and observe) with no room for interpretation.

During a last round of questions, COPA-COGECA repeated that the crisis is not over for the sugar beet growers and asked the Commission what the next steps would be now that the study is published.

The Commission responded that the challenges that the sector is facing are very diverse. Therefore, the dialogue on the resilience of the sector will continue in several fora. For example, input remains needed from the sector for various policy proposals coming up in the context of the Green Deal (e.g. SUD, RED II). New technologies to address the increased pressure of pests and diseases should be discussed. Solutions will not only come from Brussels, but also from the Member States and the sector itself.

In addition, the Commission is addressing the crisis around high input costs and the war in Ukraine. On 3 March, the Commission will publish a communication on energy prices, which will be discussed in the European Council. On 23 March, the newly established Expert Group on Food Security will meet. Now that food prices are increasing, it is important to monitor who gets which share. Recent global events such as the COVID-19 pandemic has shown how vulnerable the EU’s import dependency can be. The Commission stressed that the EU will not sacrifice its sugar sector and shall remain largely self-sufficient. Almost all Member States prefer to have domestic sugar production. New policies do not only bring costs, but also offer opportunities for the sector.

FoodDrinkEurope (CIUS) made a final remark on their worries on the uncertainty of supply in the EU and the accessibility of alternative origins. It stressed the importance of keeping a balance between domestic production and imports. Inward processing (IPR) is vital for the users to be able to import sugar for products destined for export. CIUS also mentioned the need for a safety net to secure sugar availability.

4. Next meeting

For this exceptional joint CDG-GREX, no next meeting is planned.

(e-signed)

Michael SCANNELL

List of participants– Minutes

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Arable crops and Olive Oil

Joint with

MEETING OF CIVIL DIALOGUE GROUP ARABLE CROPS - SUGAR

MEMBER STATE	Ministry or Organisation
BE	Vlaamse Overheid SPW Wallonie
BG	Ministry of Agriculture
CZ	Ministry of Agriculture State Agricultural Intervention Fund
DK	-
DE	Federal Ministry of Food and Agriculture
EE	Ministry of Rural Affairs
IE	-
EL	Ministry of Rural Development and Food Permanent Representation
ES	MAPA
FR	Ministère de l'Agriculture et de l'alimentation
HR	Ministry of Agriculture
IT	Ministry of Agriculture and Forestry
CY	-
LV	Ministry of Agriculture
LT	Ministry of Agriculture
LU	-
HU	Ministry of Agriculture
MT	MAFA
NL	Ministry of Agriculture, Nature and Food Quality Rijksdienst voor Ondernemend Nederland
AT	BMLRT
PL	Ministry of Agricultural and Rural Development Permanent Representation

PT	MA-GPP
RO	Permanent Representation
SI	Ministry of Agriculture, Forestry and Food
SK	Ministry of Agriculture and Rural Development Permanent Representation
FI	Ministry of Agriculture and Forestry
SE	Ministry of Enterprise and innovation Statens Jordbruksverk

Confédération Européenne de la Production de Maïs (C.E.P.M)	-
European agri-cooperatives (COGECA)	4
European Council of Young farmers (CEJA)	2
European Environmental Bureau (EEB)	2
European farmers (COPA)	8
European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT)	2
European Landowners' Organization asbl (ELO asbl)	2
European Liaison Committee for Agriculture and agri-food trade (CELCAA)	4
FoodDrinkEurope (FoodDrinkEurope)	9
IFOAM Organics Europe	1
SACAR - Secrétariat des Associations du Commerce Agricole Réunies / Joint Secretariat of Agricultural Trade Associations (SACAR)	3

Ad hoc experts:

Areté	2
IHS	1