

CIUS's Views on the EU Sugar Market Situation

CIUS is the association representing European sugar users of the food and drinks industry, ranging from artisan, small and medium sized enterprises, to large multinational manufacturers. CIUS represents more than 15 000 companies in the European Union, a workforce of more than 700 000 employees.

CIUS, the sugar users of the food and drink sector, welcome the constructive discussions currently held between the European Commission and EU Member States via the High Level Group on Sugar, on the EU sugar market since the last reform that abolished production quotas and moved to a less regulated market. **The association of sugar users has the mission to ensure sufficient supplies of sugar for the food and drink industries in the European Union.**

CIUS Overall Objectives - Towards a Competitive and Fair Value Chain

- CIUS supports a balanced, stable and fair EU sugar market, based on competitive, sustainable domestic production, supplemented by imports for sugar beet deficit regions.
- To meet this objective, CIUS will continue to support a free EU sugar beet production system, accompanied by an active reduction in import barriers.
- Maintaining a secure, balanced and competitive sugar supply chain remains crucial to ensuring a competitive food and drink industry in Europe.

The Sugar Market after Quotas

CIUS strongly believes that the 2013 sugar market reform and the abolition of production quotas are beneficial to the entire supply chain while of course this requires time for certain adjustments to be made.

On production of sugar, beet farmers are now able to optimise their returns per hectare as sugar beet is entering into competition with other crops and mills can optimise their capacity and use different commercial channels.

On sugar exports, EU farmers and the sugar industry are more and more competitive on the world market. When the EU sugar market is in surplus, significant export increases are possible. And due to EU exports, domestic prices are partly linked to world market prices.

Imports are still restricted. The level of imports will continue to depend on the price gap between the world and the EU market price on top of the significantly high EU import duties.

On consumption, the food and non-food sugar users are now competing at the same level. There is a growth potential for food and drink exports containing sugar.

The Market Situation – Into the Second Year Without Sugar Production Quotas

Even before quotas were abolished, CIUS had highlighted that surplus and deficit years would alternate in the future due to the following factors:

- The EU can export without restrictions but imports are limited;
- The weather impact on crop and yields;
- The competition between beet and other crops;
- The world market: if low, it may discourage production at time of sowing but if high prices at time of selling this might encourage more exports;
- EU sugar and isoglucose production are and will in the future even more be determined by market conditions.
- The ups and downs of world market prices have increased influence on the EU market;
- The decisions that will be taken for the next 2020 CAP Reform could further influence the market.

The first marketing year 2017/18 without quotas, experienced an important increase in production (+23%) accompanied by high exports of sugar as such. The current MY 2018/19 has thus been experiencing the effects of the previous year on prices. However, production and yield forecasts due to climatic conditions but also because farmers in certain countries responded to market signals, have dropped significantly (-14%) with imports down as well. This is leading to stock levels 2 million tonnes lower than last year (source: EU – December 2018).

Building a Sustainable, Competitive and Balanced Sugar Market with the Supply Chain

CIUS believes that the current Sugar Market Observatory, the available market measures and other CAP mechanisms are the fundamentals to support supply chain stakeholders to build a more sustainable, competitive and balanced sugar market for the future.

Farmers' bargaining power

- EU beet farmers currently benefit besides income support in the form of direct payments, **voluntary coupled support**. Eleven EU Member States are currently granting this aid to sugar beet growers.
- The Commission re-introduced a far-reaching system of **collective bargaining** in the legal provisions applicable post-quota that helps the position of beet growers when negotiating with the other elements of the food chain. This system improves the negotiating powers of beet growers towards sugar producers. The sugar sector is the only area where collective negotiations or written agreements are made without competition scrutiny. However these agreements cannot involve collective negotiations of the selling price as was the case under the quota regime. The scheme applicable after the quota end includes the possibility of **voluntary value sharing arrangements**.
- New measures to counter Unfair Trading Practices have been adopted to improve farmers' position in the value chain. The new framework grants Member States the authority to enforce new rules and impose sanctions in case of established infringements.

Risk management tools

- Risk-management tools exist in the European Union to deal with inevitable climatic risks and higher volatility of prices, margins and revenues, such as crop insurance, mutual funds and the Income Stabilisation Tool that could be improved.
- Market-orientated measures increase farmers' resilience in the face of different types of risks, such as product and market diversification, dissemination of knowledge on different risk management strategies, including the use of forward contracts and future markets.

Market measures of the single CMO Regulation

Introducing market measures provided for in the single CMO Regulation (private storage aid or the market disturbance clause) in light of the current situation would send out the wrong signal in times of transition and adjustments needed. The sector must start to adapt to market forces. With increased autonomy on sugar production comes increased accountability for these business decisions. Keeping volumes of sugar out of the market would seriously weaken the incentive for self-regulation. The tool would be ineffective while making little difference to the stabilisation of prices.

Better Access to Imports of refined White Sugar in Deficit Regions

CIUS believes that the abolition of production quotas must now be accompanied with an active reduction of import tariffs on raw and refined cane sugar to balance competition and establish a fairer trade environment. Furthermore, processors in deficit beet countries like Portugal, south of Italy, Romania and Bulgaria depend on refined cane sugar.

Supporting and Improving the Export Competitiveness of the Food and Drink Industries

Improving and facilitating exports of sugar-containing products would be beneficial for the entire sugar supply chain, increasing the demand of EU quality sugar. EU sugar users prefer buying sugar in the European Union in order to export high value added products to third markets.

Access to new markets is done via Free Trade Agreements signed by the EU with third countries. The reduction or abolition of tariffs needs to be accompanied by flexible and simple sets of origin rules. Preferential origin rules on the sugar ingredient in a final food product need therefore to be based on the value and not on the weight criteria. Using the weight criteria can create a huge administrative burden for exporters, having to prove the origin of the sugar processed in the EU. This would hamper sugar users from benefiting from preferential access to markets and be a disincentive to export sugar-containing products.

Improving Market Monitoring and Transparency

As highlighted above, CIUS welcomed the creation of a Sugar Market Observatory. On top, we would like to stress that certain collected data that provides for this transparency could be improved as well. Please see CIUS' arguments on market transparency on the next page.

EC Market Transparency Initiative – The View of EU Sugar Users

CIUS, the European sugar users of the food and drink industries, welcome the Market Transparency initiative that DG AGRI is currently developing with the stakeholders with the objective to clarify what kind of new information is needed for a more efficient functioning of the markets. More market monitoring and transparency has been and still is one of the main priorities for CIUS in the post-quota era. We would already like to thank the EU Commission for setting up the Sugar Market Observatory since 2017 and for developing regional price communications that are appreciated by users.

CIUS believes that improving even better market transparency can be achieved by multiple factors besides price transparency. A more market-driven agriculture requires market intelligence for public and private sources. Although we understand that the aim of DG Agriculture is to increase the farmers' bargaining power and help them to take well-informed production decision, we believe that the current market information is already available but of course, it could be improved:

Information on stocks

We question the accuracy of the data on stocks provided to the EU Commission. For instance, the Marketing Year 2016/17 EU balance sheet showed very critical low levels of stocks which should have led to major shortages issues. This did not happen.

As you know, sugar users do not store sugar, only producers, their affiliates and traders do. It would be worthwhile trying to improve the collection of information.

Improving Sugar Price Notifications

Collection of Prices

More transparency should be given on the collection of prices from the suppliers for the price reporting of the EU. For instance, clarification should be given on the type of contracts and their length. If reported prices mix prices of one-year contracts and longer-term contracts (2 or 3 years) this wrongly reflects the current communicated average market price.

Spot Market Prices

The price graph shows the average Ex-Work-Prices for white sugar for the whole EU. These prices reflect longer-term contracts made in the past. The official price monitoring lacks an indicator which gives information concerning short term market developments.

CIUS recommends the addition of a short-term component in the price-reporting-system for white sugar by showing spot market prices. Spot contracts/deliveries could be defined by contracts on white sugar signed within the current campaign and that is delivered during the same campaign.

Inter-Company Exchanges

Prices on inter-company exchanges (prices made internally between different units of the same sugar manufacturer and trader) should not be taken into account, but only contracts from sugar undertakings sold directly to sugar users.

If not, then sugar manufacturers should provide 2 sets of information:

- 1) The delivered price (DDP) and volume to sugar users;
- 2) The delivered price (DDP) and volume to non-users (affiliates/traders).

The ratio of volume for users versus the total would be made public to give a clear indication of the validity of the prices published. CIUS believes that this minor technical change in the price-reporting-system will bring major benefits. It contributes to more market transparency.

Export Prices

There are no more restrictions on sugar volumes exported whilst high import tariffs at the EU border remain. Therefore and not only for market transparency and monitoring reasons, it is crucial to include export sales in the price reporting.

Export prices should be monitored separately from Intra-EU prices. A single price would pollute the price data since the percentage of export volumes will vary year after year.

There is and will be in the future, a stronger correlation between the EU average market price and the world market price. Monitoring of market developments and thus, exports (volumes and sales) will be essential, to understand the drivers of the market.

Price Communication

The current collection of data from sugar producers should be intensified, avoiding a time lag between the date of a contract and the communication to the Commission, in order to have a very large number of contracts communicated. Otherwise, the price reporting might be impacted by a producer choice for communication.

Sugar Price Transparency of The Food And Drink Industry And Price Transmission

The EU Commission is questioning how to increase the transparency of the sugar price transmission in the downstream sectors of the supply chain.

CIUS would like to stress first of all, that there is no correlation between the average sugar price and the average price of a sugar-containing product.

The reality of price formation/transmission in the food supply chain is very complex and goes beyond price data. Comparing prices at successive steps of the food supply chain says nothing on these other inputs and costs.

- The cost of sugar as an ingredient is relatively small when compared to other ingredients or commodities. Furthermore, depending on the way currency moves, prices of all different raw materials can move in different directions constantly and price reductions in one area can offset increases elsewhere.
- The cost of an ingredient in the final product is a small percentage of the cost when compared to manufacturing costs, packaging, labour, overheads, transportation, sales, marketing and branding etc., so the sugar element is only a tiny percent of the total manufactured cost even in a high sugar-containing product. For instance, sugar typically makes up between 0.5% and 3% of the retail price of a confectionery product.
- The food and drink industry is highly fragmented. The industry processes sugar into a wide variety of food products for different markets in and outside the EU. The same product can be produced with hundreds of recipes. An average price would hide how heterogeneous processed products can be.
- Pure price information does not give qualitative aspects that affect price formation, such as contractual relationships, competition at the level of the supplier and retailer, seasonality, promotions, contract duration. As a consequence, commodity prices and food industry prices do not move at the same time.
- Other factors determine shelf-prices and their developments, e.g. consumer preferences for convenience and variety lead to increasing value added in downstream stages of the food supply chain.

Due to the complexity of price formation/transmission in the food supply chain, collecting average prices of sugar containing products would be meaningless; they could be misinterpreted and generate confusion on the market. Excessive price transparency can reduce operators' negotiating capacity and thus restrict competition.

More importantly, CIUS is neither able as described above, nor willing to report on prices to the EU Commission in order to be compliant with EU Competition Law.