ESRA

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ESRA contribution to the High-Level Meeting on Sugar
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(1) Cane refining in the EU

EU production of white sugar is split between beet producers and cane refiners – the end product is exactly the same, but **cane refiners must import raw cane sugar to produce white sugar.** As cane sugar generally cannot be grown in Europe, cane refiners are dependent entirely on imports;

Previously cane refining made up as much as 25% of the EU sugar sector – this has since decreased to around 5-10%. **Cane refining takes place in 9 Member States** (Portugal, Spain, UK, Italy, Croatia, Denmark, Finland, Romania, Bulgaria), with ESRA members represented in 4. More often than not, cane refineries are located in less developed regions of the EU, where they provide much needed employment. Furthermore, cane refining guarantees **security of supply** in the EU sugar sector, and adds **diversity to an increasingly concentrated market**. Moreover, it maintains an important connection to the global market.

(2) Effects of quota abolition

The abolition of quotas led to EU beet producers increasing production dramatically – in the first year after quota abolition, beet sugar output was up by 25%. This **overproduction, coupled with the elimination of price controls, meant that the price for white sugar in the EU dropped to record low levels** (e.g. standing at €314/tonne in December 2018, according to European Commission figures). This means that the EU white sugar price is currently equivalent to – or even lower than – the world price as listed on the London stock exchange. By far **the biggest cause of this is massive domestic overproduction in the EU.** Bearing in mind that the EU is the world's second-largest consumer of sugar, a broader context effect is that an important global premium market for white sugar has effectively disappeared. The latter has contributed to the low price for white sugar on the world market – along with a global surplus and overproduction in certain markets.

(3) The effect of the low white sugar price on cane refiners

Cane refiners compete with beet producers in the same EU single market, meaning we face the same challenges of selling sugar at such a low price. When it comes to **export opportunities, our situation is even more difficult than that of beet producers,** as we face the added cost of importing our raw materials.

However, even more problematic is the fact that our mix of potential import sources has been reduced dramatically. On average (2012-2016), the EU imported the majority (67%) of its raw sugar from the ACP/LDC countries under the Everything but Arms Agreement as well as Economic Partnership Agreements. These imports were duty- and quota-free. The problem with this source is that **ACP/LDC raw sugar is currently (on average) more expensive than white sugar in Europe.** Furthermore, ACP/LDC producers are seeking alternative export markets. Therefore, this supply source is extremely difficult to use.

Another major source (23% on average in 2012-16) was sugar imported through the CXL quota under WTO rules, which has historically given EU refiners access to important markets such as Brazil, Australia, and Cuba. However, the vast majority of **CXL sugar comes with a duty of €98/tn attached, which renders it uncompetitive** – now, and in any future low price white sugar market.

Overall then, up to three quarters of third countries' market access to the EU – the lifeblood of our industry – has effectively been wiped out by quota abolition. **EU openness to imports has in fact decreased dramatically.** This is already reflected in the fact that:

- **EU raw sugar imports were under 1 million tonnes for 2017-2018** – compared to an average annual intake of 2.3 million tonnes in 2012-16.
- In the past year, **sugar imported duty- and quota- free through free trade agreements took over as the primary source of our raw material**, making up 48% of the total. (compared to 46% for ACP/LDC and 6% for CXL).

(4) Adaptation to quota abolition

In terms of the **capacity to adapt** to quota abolition, cane refiners face certain disadvantages:

- The terms of our access to the global market – where almost 98% of raw sugar is subjected to an import duty of €339/tn – currently more than 100%! - mean that we are effectively **restricted from the vast majority of the world's raw sugar supply.**
- We also have **no access to EU funding under the CAP**, as our farmers are located outside the EU.

The only adaptation that can save the cane refining sector is to allow refiners an **increased choice of sources** for raw sugar. And this is something which EU policy can achieve.

(5) How EU policy can help

Addressing the low white sugar price

The current price levels for white sugar in the EU are unsustainable, for all market participants. **Action taken by the Commission to mitigate this low price would be welcomed by cane** refiners – however, restricting our access to imports should not even be considered an option. Not only will it have no meaningful effect on EU prices, it will also remove any chance for cane refiners to continue operating in the EU.

Real access to raw materials

EU policy already knows how cane refiners can be helped. In free trade agreements signed between the EU and Central American countries, the Andean Community countries, and the Southern African Development Community (SADC), a **tariff-rate quota for raw sugar, with €0 duty attached, was included**. These have now become the lifeline on which the survival of the EU cane refining sector depends. However, in the recently agreed EU-Mexico Global Agreement update, a small raw sugar TRQ was included with a €49/tn duty attached. The **attachment of any duty at all to these TRQs makes them uncompetitive** for EU cane refiners.

Therefore, the **EU cane refining sector needs European decision-makers to take our situation into account** when negotiating free trade agreements with major sugar exporters such as Brazil and Australia.

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In reality, as the CXL quota has been rendered meaningless by the sugar market situation, we are asking for the restoration of access to the Brazilian and Australian markets, not an increase.

These two markets are also world leaders in **sustainable sugar production, as certified by Bonsucro** – currently, there are 61 certified mills in Brazil and 12 in Australia. ESRA members have no duty-free access to this sugar.

This poses **no risk of (further) difficulties for the domestic EU beet sugar sector**, for a number of reasons:

- The **relative size of the cane refining sector** means it is too small to pose a threat;
- The **use of TRQs means that volumes will be controlled.** Furthermore, just because a TRQ exists does not mean that it will be used.
- The **use of raw sugar-specific TRQs** means that the EU will not be flooded with cheap white sugar – cane refiners will continue to act as gatekeepers of sorts, and will need to reflect our significant refining costs (the “refining margin”) in the eventual price of the white sugar.