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Second contribution to the high-level group on the sugar sector, 19 March 2019

THE COMPETITIVENESS AND SUSTAINABILITY OF THE EU BEET SUGAR INDUSTRY

- The EU beet sugar industry has substantially increased efficiency through investment and hard work. Over the last 28 years the average EU cost of production for sugar has fallen by 0.3 per cent per year, compared to an inflation rate of 2.2 per cent per year; this translates into a consistent reduction of costs relative to inflation across over two decades.[1] Over the same period, the efficiency of the sugar industry – measured in sugar production per factory – rose by 4.7 per cent per year – a huge value compared to other sectors even outside agriculture and remarkable for a 200 year old industry. The EU beet sugar industry is now regarded as one of the most competitive sugar industries in the world by independent analysts like LMC International.

- The EU beet sugar sector is first in class when it comes to environmental sustainability. The yield of fermentable sugars is higher for sugar beet than any other crop, including sugar cane, which makes it highly efficient in terms of land use. Sugar beet is also an important component of many farmers' crop rotation systems. In sugar processing a use is found for every part of the beet, meaning nothing is wasted: the pulp is processed into animal feed, water is re-used in factory processes, and molasses is used for bioethanol or as another component of animal feed. Within the factory, the proliferation of combined heat and power systems (CHP) and heat recovery have contributed to large reductions in CO_2 emissions.

- The EU beet sugar sector provides high-quality, remunerative jobs in some of the EU's most vulnerable rural areas. These jobs are well-compensated, reflecting an extremely high labour productivity of over 160,000 EUR per employee in 2017 (compared to 50,000 EUR in the wider food and beverages industry).[2] In addition, the EU beet sugar industry is characterised by a high share of intermediate consumption, resulting in high spillover effects (job creation) in the wider EU economy. In 2017 EU beet sugar manufacturing contributed over 700 million EUR to European tax and welfare systems.[3] The symbiotic relationship between sugar beet farmers (who provide the only feedstock for sugar production in continental Europe) and sugar factories (which provide the only outlet for that feedstock) mean that the closure of a factory can result in the permanent disappearance of sugar production and beet cultivation in that area.

[1] CEFS Manufacturing Costs survey.
[2] WiFOR. Study on the economic impact of the sugar sector in Europe (in progress – provisional figures).
[3] *Ibid.*

The EU beet sugar sector is currently under pressure on a number of fronts: the ban on neo-nicotinoids will both impact yields and skew the level playing field on the EU market; reformulation of processed products continues to depress consumption; the sugar sector must reduce greenhouse gas emissions by 43 per cent by 2030 (vs 2005 levels); and the entry into force of new free trade agreements is increasing the influence of the distorted world market price on the EU market. Most dramatically, the EU sugar market has entered an unprecedented phase of weakness.

MARKET CONTEXT: AN HISTORICAL VIEW

- During the discussions on the end of sugar production quotas, the European Commission repeatedly presented unlimited exports as an opportunity to compensate lower prices on the EU market.
- In combination with the end of the EU sugar quota system, higher EU and world market prices in late 2016 and 2017 encouraged a substantial increase in sowings for marketing year 2017/18.
- Since that time, both EU and world market prices have collapsed. Over-production, in particular in Thailand and other major producers, as well as export subsidies offered by the governments of India and Pakistan, have pulled world prices to their lowest level in over a decade. Global overcapacity is due in large part to historical government support that for decades has driven the development of cane sugar production in such countries as Brazil and Thailand. Far from being an opportunity for beet sugar manufacturers, the world market instead acts as a drag on EU prices. The Commission recognises that it is unable to stop or prevent third country government support for sugar/ethanol production.
- In addition, internal pressures due for example to the bans of plant protection products and new breeding techniques – available to third country competitors – exacerbate the uneven playing field on the world market.
- Economic reality dictates that, if exports are not viable because of low world market prices, EU beet sugar factories will have to close.
- This eventuality is already materialising. Some of the largest and most competitive sugar manufacturers have already announced the start of restructuring measures involving factory closures. These closures will have permanent negative consequences for the rural regions involved.

ACCOMPANYING MEASURES TO RESTRUCTURING

- The European Commission should support and assist the sector in its efforts to restructure and adapt to new market conditions, which are not expected to improve in the foreseeable future. Promised export opportunities have not materialised due to a failure to address trade-distorting measures at a multilateral level and a failure to open up new markets (Japan, Canada) in bilateral trade negotiations.
- Factory closures could have serious social and environmental consequences where the operator in question does not have the funds to provide for extra-legal support to employees (e.g. retraining, relocation compensation), reimburse beet growers for the obsolescence of

farm vehicles and machinery, or to decommission a production facility in a way that does not impact the environment.

- **<u>Therefore, CEFS calls on the European Commission to make available funds both to:</u>**
    - facilitate the re-orientation of beet sugar production facilities to the production of other beet-derived products, such as bioethanol, bio-plastics or biochemicals, in line with the objective of the revised bioeconomy strategy "to strengthen and scale-up bio-based sectors";
    - mitigate any negative social and environmental consequences of decommissioning a sugar production facility, where re-orientation is not feasible.
- There are a number of funding opportunities for such measures, notably the CAP margins and the agricultural crisis reserve. It must be recalled that the EU sugar sector, through the payment of the production charge and restructuring levies, contributed to substantial annual budgetary surpluses for the sector across a period of over ten years.

REFORM OF THE SINGLE CMO

The market situation over the last 18 months has shown how current instruments are not fit for purpose. Therefore, in the context of the discussions on the reform of the Single CMO regulation, CEFS calls for the following changes:

- The re-inclusion of sugar in the list of products eligible to benefit from *public intervention* (as found in the Single CMO regulation) Public intervention has added value over private storage: the sale of sugar via public intervention would provide an immediate capital injection for companies in need, whereas aid for private storage may only be paid 120 days after the end of the contractual storage period.
- The introduction of a voluntary system to adjust the supply of sugar to demand during periods of severe and objectively-defined (e.g. linked to an alert threshold) market crisis caused by over-supply. The nature of sugar manufacturing incentivises sugar manufacturers to optimise sugar production in order to reduce fixed costs. A supply reduction mechanism would award financial aid to manufacturers and refiners that limit their supply of sugar on the EU market in comparison to the previous year, thereby overcoming this collective action problem. Such a mechanism must not be mandatory, and it should apply to sugar manufacturers and refiners, who have immediate control over the supply of sugar on the EU market.

MARKET TRANSPARENCY

- The sugar sector is one of the most transparent in the Single CMO; operators have long been obliged to report monthly prices, production and stocks. Since 1 October 2017 sugar beet prices must also be notified to the European Commission. This high degree of transparency from sugar processors should equally apply to the secondary processing stage and retailers in order to ensure that consumers have access to processed products at a fair price.
- The European Commission must be clear about the objective of market transparency. This should be to strengthen the position of farmers and primary processors (who are inextricably linked in the sugar sector) in a difficult commercial environment. We therefore urge the European Commission to demonstrate how increased market transparency

contributes to mitigating the impacts of market crisis for beet growers and sugar manufacturers.

- We repeat our call for the extension of the Eurostat Price Monitoring Tool to categories of sugar-containing products (chocolate, ice cream, biscuits) in order to improve balance along the supply chain. We reject any move to force sugar manufacturers to communicate more information than is already the case. The only effect of more market transparency would be to strengthen the bargaining position of secondary processors.