International Confederation of European Beet Grower

CONFEDERATION INTERNATIONALE DES BETTERAVIERS EUROPEENS
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CONFEDERAZIONE INTERNAZIONALE DEI BIETICOLTORI EUROPEI

UNITING BEET GROWERS
CIBE since 1927

INTERNATIONALE VEREINIGUNG EUROPÄISCHER RÜBENANBAUER
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EU Commission - Member States

CIBE's Recommendations to the Commission and Member States
High Level Group on Sugar – 19 March 2019

Ahead of the second meeting of the High Level Group on Sugar on 19th March 2019 and in the light of the questions from the Commission to the Member States, CIBE would like to reiterate its position vis-à-vis the severe crisis experienced by the EU sugar beet sector following the end of the quota regime.

The **three main challenges** that growers must face are **productivity growth and rapid access to innovation, resilience and adjustment to markets**. Indeed, they must tackle:

- **Sustainability issues regarding beet growing with an "ecological transition" leading to a rapid loss of tool in growers' toolbox**
- **Greater exposure to various higher risks of which market and price risks**
- **Extreme volatility of markets & changes in sugar consumption in the EU**
- **Loss of decision-making power by growers / poor & bad reaction to market signals,**
- **No level playing field vis-à-vis third competitors.**

In order to face these issues, CIBE considers crucial to concretely implement and work on the 6 following points: (1) the productivity of beet and its role as a key rotational crop for the bioeconomy, (2) risk management tools, (3) a workable safety net, (4) the strengthening of growers' organizations, (5) market transparency, (6) a level playing field. **CIBE incites the EU Commission and Member States** to meet to these challenges and issues, to state confidence in sugar beet and to establish a strategic plan for the sugar beet sector with adequat financial support.

1. SUGAR BEET AS A KEY ROTATIONAL CROP AND A KEY FEEDSTOCK FOR THE BIOECONOMY: HOW TO FURTHER ENSURE INNOVATION & PRODUCTIVITY GROWTH?

Sugar beet is a key rotational crop in many regions and part of the solution regarding environmental and climate change issues. Its agronomic value in a rotation is well established. The very high productivity of beet thanks to investments by all operators (breeders, growers, processors), is a remarkable achievement of the past two decades. The quantity of various forms of "energy" produced by beet per hectare is outstanding (beet produces 5 times more "energy" than it consumes). However, these **investments and the ability of the sector to attract further investments are currently being put at risk**.

Maintaining a **healthy and productive crop is indispensable** for growers. Beet is a highly technical crop and its monitoring is supported by digital tools. However, **deprived of the use of neonicotinoids in pelleted beet seed**, which constitutes a significant improvement in sustainability and efficiency, most EU beet growers will be forced in the short and medium term to resort to far less sustainable and more cost-intensive practices and to less efficient treatments to control pests (i.e. several post-emergence spray treatments). To date 13 Member States have recognised this sustainability issue and decided to grant emergency derogations. Not all growers will be able to afford the additional costs and high risk of crop failure resulting from this ban, and some could be forced out of the sector. The ban therefore goes against and jeopardises over a decade of investments designed to improve the good practices and sustainability of the EU beet sugar sector. Furthermore, this decision to include sugar beet in the increased restrictions on the three neonicotinoids goes against the logic of competitiveness that has oriented the CAP reforms and harm the most competitive EU growers. As the EU sugar market is largely and increasingly open to imports from third countries, the only winners from this decision will be third country sugar producers, which benefit from much weaker environmental (and social) standards.

In an unprecedented EU market situation, with sugar and beet prices at record lows, this ban will have immediate and long-lasting negative consequences. It could be followed by further bans on PPPs whose active substances active substances are in the renewal process.

Furthermore, the recent judgment of the Court of Justice of the European Union on **New Breeding Techniques** could have a damaging and long-term impact on the development of sustainable, high-yielding sugar beet varieties. **Breeding has played a crucial part in the progress of beet sustainability progress (+2%/year productivity gain during the past decade)**: 100% of the sugar beet varieties in EU-28 have more yield potential, are resistant to one or more diseases or pests, have improved nutrient and water use efficiency. Having to respond to sustainability issues, breeding has become a more and more complex activity. Therefore, **depriving breeders of tools that facilitate the further development of multiple resistance traits and that reduce from 10 to 3 years the time to develop new varieties goes against both environmental and economic sustainability**. It is to be noted that third competitors producing beet or cane sugar are currently investing massively in new varieties.

Finally, sugar beet is a cornerstone in the development of the EU bioeconomy. Beet and its products are used as feedstocks to produce a wide range of bio-based products (from ethanol to bioplastics). **Therefore, the role of sugar beet as a provider of key feedstocks for the bio-based industries should be clearly recognized in the CAP.**

CIBE urges Member States and the European Commission to remain accountable for their decisions, to help mitigate the negative consequences of these decisions and to maintain the highest level of sustainability achieved by the sector so far by:

- ✓ **assessing the environmental and economic impacts of the bans on PPPs,**
- ✓ **working with the EU beet sugar sector as regards further active substances of importance for the sector and in the renewal process so as to adopt appropriate risk-based decisions with appropriate timing,**
- ✓ **putting in place accompanying measures, such as research and development support,**
- ✓ **supporting innovation in particular as regards an appropriate regulatory framework on NBTs,**
- ✓ **supporting the continuous progress in productivity and the maintenance of a workable toolbox & sustainable practices for growers**.

2. RISK MANAGEMENT TOOLS

Sugar products range from the traditional global bulk commodity that represents the large part of sugar traded to high speciality sugars. The EU trades considerable volumes of sugar globally and is now exposed to **volatile world markets**. The benchmark of the EU domestic sugar market is the world sugar market. It is to be noted that while sugar for food consumption in the EU is a mature market, the global sugar consumption grows by around 1.6%/year.

The resilience of the EU beet sugar sector is also put at risk with the **absence of risk management tools and the impossibility/difficulty for growers to deal with price risks and hedge their margin and revenue.** Force is to note that the sector is poorly equipped to face the volatility of markets (both domestic and global) and to face collapse of prices. There is currently **no sugar futures market** regarding the EU domestic market. Futures markets in London and New York concern respectively the white sugar world market and the raw cane sugar world market. The EU sugar reporting scheme is the only official tool available to reflect EU price dynamics.

CIBE calls for the available tools for farmers and agricultural sectors to be adapted to deal with the inevitable higher volatility of prices, margins and revenues. Such a toolbox, managing the different levels of risks (securing revenue, production and dealing with exceptional crises) is indispensable in a market-oriented CAP with no more market management by the Commission.

In particular, CIBE calls for:

- ✓ The option to offer growers the possibility to base their beet contracts on **sugar futures**;
- ✓ **The access to efficient risk management tools**: for example, the introduction of the **Income Stabilisation Tool** in the beet sugar sector to be managed by growers should be rapidly investigated. This tool should be supported by the Member States **and the EU**;
- ✓ The EU should also support such programmes in the form of **re-insurance** programmes (for which a new designed crisis reserve might be used).

3. WORKABLE SAFETY NET

The resilience of the EU beet sugar sector is also put at risk in the **absence of appropriate safety nets to deal with severe crisis caused by a global surplus** and a collapse in world market prices**.** This is what happened in 2017/18.

Some of the **4 provisions included in the CMO regulation to deal with crises are inadequate and have not been activated by** the European Commission which has taken no action to stabilise the EU sugar market:

- **Aid for private storage** (Article 17 of CMO regulation) is one of the tools available to stabilise market prices at times of crisis. But the Commission is reluctant to implement it because of limited effect, risk of being counterproductive, costs, weak incentive for adjustment, benefit mainly for large producers and financing via Pillar 1 (direct payments). However, CIBE considers that most of these negative consequences can be avoided with a rapid, timely and tailor-made implementation.
  It is to be noted that sugar is not eligible for public intervention in the current CMO Regulation.
- Measures against market disturbances (Article 219 of CMO regulation) are considered as not possible because they could be implemented **only if other CMO measures are not sufficient.**
- **Measures for specific problems** (Article 221) relate to emergency measures for **specific** problems and can only be implemented if Article 219 cannot be implemented; this provision is limited to 12 months.
- **Temporary derogation to competition rules during periods of severe imbalances** (Article 222 of CMO Regulation) is a provision for which interpretation is very restrictive and for which implementation remains unclear. Moreover, the issue of free rider related to this provision remains a strong stumbling block.
- **Reserve for crisis** (Article 226 of CMO regulation, Article 25 Regulation n°1306/2013) can be used to **finance expenditure under Articles 219 or 221** of the CMO Regulation but is subject to financial discipline (impact of farmers' direct payment); the reserve for crisis has never been used.

To maintain sustainable beet growing in the EU in a situation of market crisis, **CIBE calls for:**

- ✓ **An adequate safety net in the CMO regulation**: CIBE calls on DG-AGRI services to carry out **a comprehensive analysis of the following provisions**:
- **aid for private storage:** it should be clarified so as to be rapidly and efficiently triggered;
- the introduction of sugar in the list of products eligible for **intervention** could alternatively be envisaged; (Articles 11 to 16);
- finally, **article 222** should also be analysed and clarified to allow growers to participate in a possible reduction scheme and be activated independently from other CMO measures.

- A support in the form of incentives for the production of ethanol should be developed: the **sugar to bioethanol programme in the US or the development of favourable biofuel policies and bioethanol production based on sugar cane in big cane sugar producing countries** have become a regular tool to stabilise domestic sugar markets. By contrast, the new EU RED II Directive only maintains the 7% cap for first-generation low-ILUC biofuels and halts investment. Such a tool to divert sugar from food market to non-food market and to temporarily lift the 7% cap on crop-based biofuels should be investigated in the event of sugar market crisis in the EU.

✓ A **new designed crisis reserve** to be implemented in the extreme crisis with no impact on farmers' direct payments should be rapidly designed to finance exceptional measures.

4. STRENGHTEN GROWERS' ORGANIZATIONS

Beet growers have faced a drastic changing regulatory context with a weakened position in the supply chain. The main changes have been:

- the abolition of the minimum beet price,
- the freedom for sugar manufacturers to contract with new growers,
- the fact that collective negotiations on agreements within the trade have been difficult in many regions and constrained by competition rules,
- the non-mandatory nature of value sharing clauses: they are mostly applied -85%- but with variable results and in some cases with a lack of transparency,
- the lack of clarity in the determination of the beet price.

Despite the maintenance of a regulatory contractual framework, the consequences of these changes have been a **deterioration of beet delivery conditions & purchase terms** in most countries, a **deterioration of the value sharing clauses** and a **deterioration of the balance of risks** to the detriment of growers.

Beet growers are in many cases the adjustment variable. Beet prices fell in 2017/18 and will continue to fall in 2018/19, to an extent similar to the sugar price. Such prices do not cover production costs. But the reactions by EU growers to market drivers are being limited by rigidity, low transparency of contractual frameworks and the weakened and weakening position of beet growers. In 2018/19, the EU beet area did not adjust to the market signals mainly because some beet growers did not know their final beet prices for 2017/18 and did not know how the adjustment of beet prices would be made. In December 2018, at a time when sowing decisions for the next season are finalized, some growers in a key EU producing country did not know how their beet price would be determined for their 2019/2020 contracts.

In particular, CIBE:

- welcomes the legislative process to **ban unfair trading practices**;
- asks for the **respect of the CMO Regulation** (Article 125 and Annex X) which imposes an agreement within the trade before sowing and the **3 key elements to be included in any beet contract: the quantity of beet, a price and how the evolution of sugar market prices impacts the beet price**;
- asks sugar manufacturers for **greater clarity and transparency in the sugar beet contractual framework** (value sharing rules, defined rules for the determination of surplus beet) as well as greater **flexibility** in the contracts;
- considers that a **regular analysis** (annual or every two years) by DG-AGRI on the **implementation of the contractual framework and of the value sharing clauses** will help to support the transparency and consistency of the contractual framework.

To that end, CIBE considers that there is a **need for the Commission and Member States to ensure that the CMO regulation is respected by all sugar beet processors and to support:**

- ✓ the positive **role of growers' organizations and POs in collective negotiations** of the key terms of the beet contracts (incl. value sharing clauses, prices and quantity),
- ✓ the **need for transparency in the establishment of prices and indicators**,
- ✓ the **need for transparency and balance in value sharing clauses** and
- ✓ the option for growers to base their beet contracts on **sugar futures**.

5. IMPROVE MARKET TRANSPARENCY

There is also a need for **better monitoring of the market**. CIBE welcomes the setting up of the **Sugar Market Observatory but notes that:**

- the legislators **only improved partially the regulatory framework for market transparency**. While **the reporting of regionalized market prices has been agreed and the reporting of average beet prices has been harmonized**, in some aspects market transparency has deteriorated: market prices for sugar for industrial uses is no longer reported and it is now almost impossible to know the exact level of ethanol production from sugar and sugar beet;
- the sugar price reporting only covers certain types of sugar (bulk- big bags) but excludes smaller packaging and high value-added speciality sugars;
- the delay in the sugar price reporting remains an issue for growers who are the only part of the chain not knowing prices timely;
- there is no reporting established for **sugar spot prices** (spot prices are established by an external consultancy agency), such a leading indicator reflecting market value (and complementary to the current average price reporting based on invoiced prices of sugar sold several months ago) is missing in **a new context where operators, including growers (and to a certain extend the Commission itself), need to assess the risks and adjust their actions**;
- there is no information on **isoglucose** prices;
- there is no systematic and public information regarding **ethanol** production and prices (established currently by an external consultancy agency), which could represent almost 25% of sugar beet outlets in some countries (e.g. France);
- the transparency in the downstream parts of the supply chain remains poor. The reporting of **high sugar content products retail price indices** with the publication of the monthly commodity price dashboard by DG-AGRI groups together in the same category sugar, honey, jam, chocolate and confectionery. This category should be clarified (at least sugar should represent one category and honey should be excluded from the category grouping jam, chocolate and confectionery) and the methodology used should be clarified;
- the **information/knowledge regarding the evolution of EU sugar consumption and the information provided by sugar users remain poor**. At a time where Member States are considering policy options to incentivise the reduction of sugar consumption and where food companies are reviewing their strategy on that matter, it is key to monitor closely their impacts on the market;
- in addition, the **delay in the communication by Member States** of recent estimates, monthly export figures and stocks introduces delay in the assessment of the EU market balance. For example, the short-term outlook issued by DG-AGRI in Autumn 2018, forecasted an EU sugar production 2018/19 at 19.2 Mt, 1.9 Mt lower than 2017/18, while most operators (including CIBE) expected at that time a 3 Mt drop on production, to around 18 Mt. It was only at the end of February 2019 that the Commission provided a more accurate figure but still needed to wait for official communications from Member States by the end of March 2019 to issue it. This is detrimental for timely and appropriate reaction, notably by growers, to market signals. DG-AGRI should also report on first-hand information provided by operators, notably in the Sugar Market Observatory.

CIBE welcomes that following the recommendations of the Agricultural Market Task Force, the Commission is currently assessing how to further improve market transparency. Regarding this initiative, CIBE calls for:

- ✓ **the further improvement of sugar price reporting** (report on other types of sugar and on spot values),
- ✓ the **introduction the isoglucose price reporting,**
- ✓ the **monitoring of the EU ethanol market** (price and balance) to be included in the Sugar Market Observatory,
- ✓ the **improvement of the monthly dashboard on high sugar content products retail price indices,**
- ✓ the **monitoring of EU and Member States policies on sugar consumption**,
- ✓ the **monitoring of the main EU sugar processed products market segments** (yearly evolution of their volume).

6. OPPOSE ANY FURTHER MARKET ACCESS CONCESSIONS, STOP THE DUMPING ON WORLD MARKET AND MITIGATE POSSIBLE BREXIT IMPACTS

Preferential access to the EU sugar market currently benefits currently 95 countries in the form of duty-free or reduced duty access. In addition, **in recent concluded FTAs (Central America, Peru, Colombia, Panama), the sugar TRQs granted to these third partners increase automatically every year whatever the EU sugar market situation**! The EU is no longer a net importer of sugar and according to EU Commission projections up to 2030 confirm that the EU should remain a net exporter in the long run. The EU does not need to open its sugar market further, in particular in a context where Member States consider policy options with regard to sugar consumption.

The sharp drop in EU prices is not only the consequence of a good 2017/18 crop in the EU but also of the **global sugar surplus in 2017/18** (production increases in India and Pakistan totalled 12 Mt!), the positions of speculators and the **strategy of third countries dumping subsidised sugar on the world market**. This third country government support, by depressing the world market price, hurts EU beet growers and sugar manufacturers. In particular, **the Commission must support the complaint by Australia and Brazil against India's sugar regime**.

A level playing field with third countries must be respected. EU growers are the most efficient growers in the world, but they cannot compete against competitors who can use plant protection products banned in the EU, they cannot compete with Brazilian currency depreciation, they cannot compete with the export subsidies implemented by some countries.

In such a context, the significant potential impacts of **Brexit** should be highlighted. CIBE calls for avoiding any disruption of EU-UK trade and of the EU sugar market itself. Avoiding a no-deal scenario and maintaining current EU-27 access to the UK market – and vice versa – is a priority for CIBE. CIBE supports an orderly Brexit, including a transition period. In the event this could not be achieved, sugar beet and sugar should be included in **eventual support policies and emergency Brexit funds** to deal with possible crises and unforeseen events.

CIBE calls for:

- ✓ **a stop to granting market access concessions,**
- ✓ **opposing dumping by third countries on world markets**,
- ✓ **avoiding a no-deal scenario on Brexit / including sugar beet in eventual support policies and emergency Brexit funds**.