INTERNATIONAL CONFEDERATION
OF EUROPEAN BEET GROWERS

CIBE

November 2011

THE EU BEET GROWERS' PROPOSAL FOR A SUSTAINABLE POST-2015 EU SUGAR BEET SECTOR

1. **Extend the provisions in the sugar sector at least up to 2020, including the sugar quotas and the minimum beet price**
2. **Preserve and reinforce the sugar beet contractual framework, including the interprofessional agreements**
3. **Preserve current market management instruments (out-of-quota, carry forward, withdrawal) and consolidate the safety net to ensure the supply of the EU market ("reverse" withdrawal)**
4. **Improve the timing and the implementation of market measures for a better reactivity to market developments**
5. **Abolish the sugar production charge as from 2015/2016**
6. **Adopt EU trade policies consistent and compatible with the EU sugar policy**
7. **Propose a review clause in 2018 in order to analyse the EU and the global markets and discuss the future sugar CMO post-2020 at that date**

CIBE, founded in 1927, represents 440 000 sugar beet growers from 16 EU sugar beet producing countries (Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Romania, Slovakia, Sweden and the United Kingdom) plus Switzerland and Turkey.

CIBE represents and defends the interests of beet growers within the European Institutions and international organisations on fundamental issues such as:

- The EU Sugar Regulation
- The Common Agricultural Policy (see "**CIBE's First Contribution to the Debate on the CAP after 2013**" http://www.cibe-europe.eu/stats.html#Press, "**CIBE's Second Contribution to the Debate on the CAP after 2013**" http://www.cibe-europe.eu/stats.html#Press)
- International and bilateral negotiations on free trade agreements
- Agronomic and technical beet issues
- Sugar, sugar by-products and bioenergy market issues
- Environmental issues (see **CIBE-CEFS brochure "The EU Beet and Sugar Sector - A Model of Environmental Sustainability"** http://www.cibe-europe.eu/stats.html).

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WHY IS THE COMMISSION'S PROPOSAL TO REFORM THE SUGAR CMO NOT SUSTAINABLE?

♦ THIS IS A WRONG DECISION WITH AN INAPPROPRIATE TIMING

A. The Commission's legislative proposal communicated on 12th October 2011 aims to get rid of the current sugar CMO as from 2015, i.e. **to abolish the sugar quotas system, to abolish the minimum beet price and to abolish all market instruments** included in the current Sugar CMO (definition of out-of-quota, carry forward, withdrawal, release of out-of-quota), excepting the aid for private storage.

B. The Commission's proposal is strictly political. The Commission tries to justify its radical proposal on the basis of simplification and reduction of administrative burdens, but without convincing. In addition, the Commission suggested in its impact assessment study and during its Press Conference on 12th October, that a decision to end the sugar quotas system had been taken during the Health Check. This is not true. **The Council of Ministers has never taken such a decision**. Thus, if the Council and the European Parliament would decide in the beginning of 2013 at the earliest, EU growers would have only 2 years to adapt to such radical and drastic change.

C. **There are neither economic nor technical arguments to justify the Commission's proposal**. Firstly, the current sugar CMO honours all the EU trade commitments, in particular the preferential agreement with ACPs and LDCs and the current WTO commitments. It is highly questionable that the Commission anticipates already in its proposal a further WTO deal or a further bilateral deal with MERCOSUR countries and therefore indirectly grants concessions in advance to its negotiation partners. Secondly, the current sugar CMO contains all the necessary market tools in order to guarantee a regular sugar supply for all EU consumers; the recent developments in some EU local sugar markets were due to a lack of reactivity of the Commission in the implementation of these market measures. Thirdly, the sugar CMO is budget neutral: export refunds have been suspended since 2008.

The Commission's proposal would strike down, from one day to the next, the management of the sugar market and its supply control which ensure stability and guarantee supply and which have proven their efficiency for years, even in extreme situations of surplus or scarcity, and this at zero cost to the EU budget.

♦ THE VOLATILITY OF THE EU SUGAR MARKET WOULD BE ACCENTUATED

D. Following the 2006 reform, **the EU is one of the world's biggest net sugar importers since 2007,** therefore, the availability of sugar on time and in sufficient quantities on all EU market places (whether in a situation of global surplus or global scarcity) is a key issue. However, the new dynamics in global sugar markets which resulted from the world financial and economic crisis led to a very high price volatility of world markets. This volatility becomes even higher when major sugar cane producing regions face bad weather conditions.

E. In this highly volatile environment, the **European sugar beet sector ensures a regular raw material supply** for two reasons. Firstly, it is located in climatically more stable regions – contrary to sugar cane. Secondly, the current sugar regime has a stabilizing effect, in particular due to the supply management with sugar quotas and to the possibility to withdraw quota sugar in the event of surplus or to release out-of-quota sugar onto the EU food market in the event of supply tension in the EU. These flexible tools are efficient; in particular the release of ouf-of-quota sugar becomes an important buffer tool. This tool must be reinforced in future so as to be used as a "reverse" withdrawal and with better reactivity.

F. **Abolishing the sugar quotas would not mitigate the inevitable volatility** introduced by the increased opening up of the EU sugar market and reinforced by recent inconsistent EU trade policies; the EU market is not only not disconnected from sugar world markets but depends more and more on unreliable sugar imports. In such a context, removing all supply management tools will certainly increase the volatility and jeopardize the security of sugar supply in the EU.

The efficient market tools ensuring security of supply and a balanced market and providing a bulwark against the volatility of supply and extreme volatility of the world sugar market would be eliminated without being replaced by any other tool to stabilise the market. The elimination of supply management measures would increase the volatility of supply to the EU market.

♦ THE EU SUGAR SECTOR WOULD BE FURTHER DESTABILISED AFTER THE DRASTIC RESTRUCTURING PROCESS INTRODUCED WITH THE 2006 REFORM

G. **The EU sugar beet sector went through a drastic and painful restructuring process** between 2006 and 2010, in order to adapt to the 2006 reform. During this restructuring process, EU beet processors and EU beet growers were forced to reduce production substantially, some of them having stopped sugar beet production completely, in order to achieve the objective fixed by the Commission. This restructuring Europe led to a cut in sugar production of more than 5 million tonnes, the closure of 83 factories out of a total of 189 in the EU-27, the loss of over 16 500 direct jobs in rural areas, and the end of sugar beet cultivation for around 140 000 farmers.

H. The Commission's impact assessment, which evaluated the consequences of a scenario of abolishing the sugar and isoglucose quotas in terms of sugar and isoglucose production, prices and exports and imports volumes, is not a compelling case in favour of this scenario. In particular, the estimated increase in EU sugar production and exports are not significant and highly dependent on world market prices.

I. The current possibility to export whilst respecting WTO commitments gives growers and processors an essential export path in order to counterbalance the import flows. But increasing EU sugar exports is not realistic without further improvement of EU competitiveness. When the price of EU sugar exports is close to the Brazilian cost of production, which is the world sugar market benchmark, exports are neither remunerative nor sustainable for average EU growers. Contrary to what the Commission has stated, **the EU sugar beet sector is nowadays not competitive enough to withstand the competition on highly volatile sugar world markets**. Further agricultural and industrial progress which implies time and investments are necessary to ensure the long-term sustainability of the sector.

J. Moreover, according to the Commission, in the abolition of sugar quotas scenario the isoglucose production is not expected to increase; this is scarcely credible as regards the isoglucose market share of caloric sweeteners in countries where isoglucose and sugar are in competition. **The Commission's proposal will certainly lead to a significant substitution of sugar with cereal-based sweeteners, of which isoglucose**. This substitution will lead to further beet sugar factory closures (analysts estimate 15 factory closures). Whether this substitution would be valuable, as the EU is already a maize importer and as EU wheat exports remain strategic in terms of global food security, should be analysed more in depth, in particular in the light of the Commission's proposal to promote crop diversification.

The Commission's impact assessment does not provide any valid economic justification to this proposal.

The Commission's proposal disregards the effort made by the sector since 2006 towards increased competitiveness. This process is not fully completed; its result would therefore be jeopardized by this radical and reverse proposal as the EU sector would not be able to sustain the competition on the world market from 2015.

The Commission's proposal to abolish the sugar quotas system would jeopardize the sugar beet sector and destroy jobs in rural areas.

♦ THE EXEMPLARY CONTRACTUAL FRAMEWORK BETWEEN GROWERS AND PROCESSORS WOULD BE DEMOLISHED

K. As regards beet supply, the Commission's proposal suggested that "the terms for buying sugar beet and sugar cane, including pre-sowing delivery agreements, shall be governed by written agreements within the trade concluded between Union growers of sugar beet and sugar cane and Union sugar undertakings." **The current provisions go well beyond this minimum obligation of written contracts**. According to the Commission's proposal, the standard provisions governing agreements between growers and undertakings which are already currently clearly defined should be established after 2015, but the Commission considers that the conditions of these agreements should be delegated to the Commission itself, and considers therefore that these are not essential elements of this legislative proposal.

L. **A properly functioning supply chain is indispensable for beet growers: to that end, the contract model in the beet sector is crucial**. The minimum beet price which currently allows a balanced bargaining power between "fragmented" EU growers and highly concentrated processors would be eliminated by the Commission's proposal without being replaced. Moreover, all the conditions and terms of the current contracts as well as current interprofessional agreements would not be replaced. According to the EU competition rules which would then apply, the possibility for growers' organisations to negotiate prices would therefore not be possible.

M. **This Commission's proposal on sugar which is totally blank on this essential aspect clearly contradicts the Commission's objective** to consider interprofessional relations and producers' organisations as essential and key elements of the market management in the future.

N. Furthermore, CIBE notes that the strong decrease in the EU sugar price which followed the 2006 reform and the opening up of the European market has not been sufficiently transferred to the final consumer, as seen by the recent evolution in consumer prices in the EU. And contrary to what was forecast by the European Commission, this decrease has mainly benefited the food and drinks industry and the retail sector. Moreover, the Commission's impact assessment stated that a **further significant beet price decline** consecutive to the abolition of quotas would be even higher than the expected sugar price decline. It is also likely that this expected beet price decline would once again not be transferred to the consumers. The sharing of added value along the food chain therefore remains of particular relevance for **beet growers who would suffer the most**.

The Commission's proposal is blank on a key and essential element: the interprofessional agreements between growers and processors.

The Commission's proposal would destroy, from one day to the next, the very efficient interprofessional organisation of the sector (certainly the best organised in the EU).

The contract model in the beet sector, instead of being reinforced, would be weakened to such an extent that the fair balance of rights and obligations between processors and growers would be upset to the detriment of beet growers.

♦ THE HIGH MULTIFUNCTIONALITY AND ENVIRONMENTAL SUSTAINABILITY OF EU SUGAR BEET PRODUCTION WOULD BE THREATENED

O. The Commission's impact assessment suggested in the abolition of sugar quotas scenario an increased concentration of beet production in fewer EU regions. However, the agronomic value of sugar beet remains an irreplaceable strength and a necessity in diversified arable crop rotation in all European beet regions**. Sugar beet is a highly valuable key rotational crop in most European countries with respect to environmental sustainability**. Sugar beet provides many valuable co-products, such as beet pulp, which in particular releases land from the production of specific feed crops. It should be noted how detrimental in terms of rotation the end of beet growing due to the 2006 reform has been for affected farmers.

P. The specific status of out-of-quota has preserved and increased the use of sugar beet as a raw material for non-food outlets in the EU. Beet increasingly plays an important part in the developing the European bio-economy which in turn plays an important role in delivering the objectives of the Europe 2020 strategy designed to turn Europe into a smart, sustainable and socially inclusive market economy. **The bio-economy** presents new opportunities for social innovation and for improving the lives of everyone, for example, by offering rural communities the possibility to diversify their activities. It offers bioenergy and products - such as bioplastics or household cleaning bioproducts - which are biodegradable (and compostable) and which make our lives healthier, safer and easier. **The Commission's proposal ignores the role of out-of-quota sugar as a regular supply for these non-food outlets**. The increased supply and prices volatility due to the abolition of quotas and out-of-quota would therefore threaten this promising development.

Q. The stable and highly organised sugar beet sector provides sound perspectives for other operators, for example seed companies, breeders, machinery constructors, etc. It therefore **supports economic growth in rural areas** and provides a favourable context for research, development and innovation (11 national technical beet institutes).

The Commission's proposal would diminish the biodiversity in farming systems in many beet growing regions.

The Commission's proposal would strike down one of the most promising and valuable sustainable resources for green growth, green energy and bio-economy and would betray the aim of a balanced territorial development.

As beet has a relatively small market share in comparison with other arable crops, a jeopardised and disorganised sector due to the Commission's proposed changes would make it less attractive and endanger its current dynamism.