CEFS INPUT to the new EU trade policy strategy

CEFS represents European sugar manufacturers and refiners across 21 member states supporting about 180,000 direct and indirect jobs and 140,000 European farm businesses. The main activities of CEFS members is to extract the sugar already naturally present in sugar beet or cane to supply the market with sugar and many different products including bio-based products. CEFS aims to ensure a well-functioning of the European single market by securing stable supplies of sugar through trade, agriculture and development policies which are consistent and coherent.

The EU sugar supply is higher than domestic consumption as stated in the Commission balance sheet from March 2015. Currently the EU sweetener consumption is around 19 million tonnes while the EU supply amounts to 20 million tonnes (14 million tonnes for food and 6 million tonnes for non-food use). After 2017, with the end of sugar quotas, which have been set at a level below the EU sugar food needs, the EU sugar sector will be liberalised allowing EU sugar production to adjust to needs. Therefore and as also stated in the Commission's Agricultural prospect 2014-2024 the EU will be self-sufficient. This means that there will be no need to further supply the market with additional sugar imports.

Overview on the world sugar market

The EU beet sugar is one of the most competitive sugar sectors worldwide (e.g. sugar yield/ha and sugar production per factory). Considerable environmental standards (higher energy prices, ban on fracking, etc.) and social standards (high wages, etc.) contribute to a corresponding level of production costs. **After 2017 the EU will have one of the most deregulated sugar markets in the world, while many major sugar exporting countries are protecting and even increasing their domestic support measures – e.g. Brazil, Thailand and India. This is confirmed by the OECD** annual agricultural policy monitoring and evaluation from 2015, which observes a trend towards a higher level of support in several emerging economies. This is further aggravated by fluctuations of and/or strong political interventions in international exchange rates (in particular by Brazil).

The general weakening of emerging economies' currencies further enhances their competitiveness in world market commodities, in particular sugar. All those elements create increasing pressure on world market prices and contribute considerably to high volatility of both quantities and prices on the world sugar market. In fact sugar is one of the most volatile commodity markets. Within the last four years, the world market price decreased by more than 60% from over 35 cts/lb to 12 cts/lb. Consequently the EU sugar industry does not compete on a global level playing field. Within this context and in order to ease the situation of the European sugar industry, CEFS has identified the following priorities:

1) **Maintain the EU's import tariffs on raw and white sugar**

2) **Multilateralism over bilateralism**

3) **Exclusion of sugar and high sugar content products from FTAs**

4) **The need for a level playing field in FTAs**

5) **Maintain strict rules of origin**

6) **Consider anti-dumping and countervailing duties in FTAs**

1) Maintain the EU's import tariffs on raw and white sugar

The EU should maintain its import tariffs on raw and white sugar to protect from low and volatile world market prices and from unfair competition. This includes the tariff of 98€/t on sugar imports under the CXL quotas, part of concessions negotiated within WTO. Import duties on sugar should not be abolished because the EU sugar industry would be negatively affected, losing its market share to government supported competitors and undermining EU sugar producers and farmers. The EU sugar industry is investing to optimise its competitiveness ahead of 2017, safeguarding its long-term viability and contributing to the EU economy and its recovery. **The EU's import tariffs offer some protection against excessively low world market prices that remain distorted by subsidies and do not reflect the average costs of producing sugar.**

While the EU's fixed import tariffs for non-preferential sugar imports will remain after 2017, the EU is continuing to grant market access concessions to third countries. This includes unlimited and unrestricted duty-free quota-free access for LDC and ACP countries. In addition to this, the EU has granted import concessions under multilateral and bilateral trade agreements - Brazil, Australia, Cuba, India, Balkan countries, Ukraine, Peru, Colombia, Ecuador, Central America, Panama, South Africa, Canada, Singapore, Georgia and Moldova. **As a result, EU total sugar imports have increased from 1.9 in 2005/06 to around 3.5 million tonnes today.**

Finally lowering customs duties for other countries would erode the preferences of LDC/ACP countries and it would give additional market concessions to Brazil which is already the biggest preferential sugar supplier of the EU.

2) Multilateralism over bilateralism

The EU sugar sector should not pay twice – in Free Trade Agreements (FTAs) and at the WTO level – and concessions should only be granted in the context of the WTO, not as a one-sided offer in FTAs.

CEFS favours multilateralism over bilateralism. The EU is negotiating a number of FTAs with third countries and this often results in market access concessions for sugar and high sugar content products although the agreements do not address trade distorting measures in these countries. If the Doha negotiations were revived again, the EU would risk paying twice by granting concessions both bilaterally and at WTO level. **As a result CEFS supports the conclusion of the Doha Development Agenda as the best means to securing balance and coherence between the different elements of the multilateral rules-based trading system. CEFS believes that the sugar regimes (see annex) in the major sugar producing and exporting countries (e.g. Brazil/Mercosur, India, Thailand) must be reformed before the EU grants further market access to these countries.**

3) Exclusion of sugar and high sugar content products from FTAs

The EU should not concede market share on a permanent basis to the EU's main competitors, flooding the EU market with subsidised sugar and undermining the sector's preparations ahead of 2017. It would also undermine the market access granted to the ACP/LDC countries which have duty-free and quota-free access to the EU market since 2009.

The EU is one of the few developed countries to grant such comprehensive market access to LDCs and despite similar declarations from other WTO members in Hong Kong in 2005[1] little has been done in practice. Furthermore the EU has granted additional concessions under bilateral agreements to Ukraine, Colombia, Peru, Central America, Canada, Ecuador, South Africa, Georgia and Moldova totalling more than 600,000 tonnes of sugar and high sugar content products. Since 2009/10 EU sugar imports increased by 8% per year on average. Further increases would have a tremendously negative impact on the EU sugar market, leading to factory closures and job losses undermining both EU producers and LDC/ACP suppliers.

[1] Ministerial Declaration, Hong Kong, 22nd December 2005 (WT/MIN(05)/DEC), paragraph 47

4) The need for a level playing field in FTAs

CEFS requests a level playing field in FTA negotiations. If concessions for sugar or high sugar content products are granted during negotiations, a commitment should be included in all future FTAs ensuring a level playing field in bilateral trade negotiations. This means the counterpart commits itself not to grant governmental support and export subsidies (as defined in the WTO - Agreement on Agriculture) for products subject to market access concessions from the date into force of the agreement. This would prevent subsidised imports from entering the EU market, ensuring a level playing field for the EU sugar industry.

5) Maintain strict rules of origin

The EU should maintain strict rules of origins in order to prevent unfair competition and triangular trade. Relaxing rules means the EU risks paying twice: on market access and on rules of origin, leading to a loss of market share. **Rules of origin should first and foremost secure mechanism to establish the "economic nationality" of a product, not facilitate trade. Therefore transparency and objectivity are the two main issues in this discussion.**

6) Consider anti-dumping and countervailing duties in FTAs

The Commission should consider anti-dumping and countervailing duties when negotiating FTAs. If the EU is granted access for sugar or high sugar content products during negotiations, it should not accept the imposition of anti-dumping and countervailing duties on EU sugar exports. For example, import duties for EU exports of refined sugar to Canada should have been removed during the negotiation leading to CETA. The continued imposition of anti-dumping and countervailing duties on EU exports to Canada therefore goes against the spirit of this agreement.

ANNEX

BRAZIL

Brazil is the world's largest producer and exporter of sugar with a share of more than 50% of sugar traded internationally. The Brazilian governmental support programmes create a state-driven growth engine for the Brazilian cane, ethanol and sugar sector. Brazil intervenes in its cane, ethanol and sugar sector through various governmental programmes e.g. mandatory ethanol blending, subsidised credits, government loans and indirect tax programmes, in combination with a state governed exchange rate policy. These measures lead to considerable volatility of both quantities and prices of Brazil's sugar exports, which influences the world sugar market and the world sugar price. At the WTO Brazil is committed to export not more than 1.5 million tonnes/year of subsidised sugar, including ethanol. However, Brazil considers all its exports as not being subsidised and it exporting without limit. Its exports increased from 7 million tonnes in 2007 to 27 million tonnes in 2013. In contrast, the EU sugar exports are subject to WTO limit of 1.4 million tonnes/year. The Brazilian government has recently granted a higher fuel ethanol blending from 15% to 25%.

THAILAND

Thailand is the world's second largest sugar exporter. The Thai sugar regime is a blueprint of the EU sugar regime before the reform of 2006 which was incompatible with the WTO rules. Thailand applies sales quotas for the domestic and world markets (Quota A & B) and a market clearing system (Quota C) together with fixed sugar prices, minimum cane prices, import restrictions, direct support to growers and direct governmental support through a special "Cane and Sugar Fund". In addition to this, to counteract the distortions caused by its rice policy, the government is encouraging rice growers to switch to sugar cane with incentives such as soft loans.

INDIA

The sugar sector in India is heavily regulated. India is a sugar "swing state", swinging from a net-exporter to a net-importer which destabilises the world market. The Indian government controls the amount of sugar that is sold on the domestic market and the industry has benefited from government policies such a minimum cane price, subsidised inputs for growers and preferential loans. Furthermore, import tariffs and export subsidies control the amount of sugar on the Indian market. **India's import duty on sugar was recently increased from 25% to 40%.** On top of this, India granted 44 billion rupees in interest-free loans to mills. In 2015 **the government extended the export subsidy of 4,000 rupees/tonne (US$64.5/tonne, almost 20% of the current world price per tonne) for 1.4 million tonnes of raw sugar exports, which can be extended up to 2 million tonnes of white sugar as millers continue to struggle to export raw sugar despite the subsidy.**

USA

The US sugar sector operates in a highly regulated setting. Minimum prices, market allotments, cross-sector subsidies as well as re-export programmes provide advantages to US producers over potential imports. The US government operates a sugar price support programme by managing the amount of domestically-produced and imported sugar that can be sold on the domestic market. Furthermore, sugar re-export programmes help balance the market. These instruments are underpinned by a loan system, whereby the government acts as a buyer of last resort, effectively establishing a minimum sugar price. A "feedstock flexibility programme" also provides outlets for surplus sugar to the ethanol sector at reduced prices.

MEXICO

Mexico' cane industry has received government support in different forms. The primary benefit to the industry remain **the ability to sell the vast majority of sugar output at relatively high prices on the protective NAFTA sugar market. The high domestic price is maintained by a combination of border protection, reference price and market arrangements.** In 2014, the US Department of Commerce found that Mexico has dumped subsidized sugar onto the US market and imposed countervailling and anti-dumping duties on Mexican sugar averaging 56%. In December 2014, the US and Mexican governments negotiated an agreement to suspend anti-dumping and countervailing duties. In return Mexican sugar exports to the US are limited in volume and minimum prices for Mexican imported sugar are established. In March 2015 Mexico announced the public tender for the nine state-owned sugar mills which produced for 20-30% of Mexico's annual sugar production**.**