European Commission DG AGRI
Attn: Koen Dillen
Rue de La Loi 130
1040 Bruxelles

Brussels 16 June 2023

Dear Mr Dillen,
(Dear Koen),

RE: THE EU SUGAR MARKET SITUATION

On behalf of CEFS, the European Association of Sugar Manufacturers, and CIBE, the International Confederation of European Beet Growers, and in advance of the Sugar Market Observatory meeting of 20 June 2023, we would like draw your attention to some key points regarding the EU sugar market situation.

1. THE EU SUGAR MARKET IS CURRENTLY SUFFICIENTLY SUPPLIED:

First, ending stock forecasts for 2022/23 (1.236 mmt) are around the same levels as in 2020/21 (1.225 mmt), which were not considered cause for concern by the European Commission or Member States. This is recognised by CIUS, even though the absolute figures they present are unsourced and differ from those found within the European Commission's balance sheet.

Second, recently higher sugar prices should incentivise a stabilisation in sugar beet areas, which would help EU beet sugar production recover. CIUS' claim that falling beet areas put supplies to sugar users at risk is misleading. As the first year following the end of quotas, 2017/18 was an exceptional year and cannot be considered a suitable baseline. Further declines in beet areas reflect depressed sugar prices that were below the costs of production of most beet sugar manufacturers.

Third, since June 2022 there has been a temporary trade liberalisation of Ukrainian agricultural products, which has been extended until June 2024 . This has resulted in a significant increase in sugar imports from Ukraine; 280,976 tonnes of Ukrainian sugar entered the EU between October 2022 and April 2023. Should imports resume at this rate after the expiry of the export ban, it will cause serious market disruptions and damage to the EU sugar sector, while depleting Ukraine's stock levels
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Fourth, the market availability of third country sugar on the EU market is sufficient. Due to higher sugar prices and lower freight costs, imports are forecasted to increase in 2022/23, mainly from the EU's bilateral trade partners, reduced-duty WTO quotas, and duty-free quota-free imports from the African, Caribbean & Pacific and Least Developed Countries (ACP/LDC). CIUS points out that the EU is facing the lowest sugar export rate and the highest import rate in six years; this is a function of the sugar price situation and shows that the market is reacting to the current situation without the need for exceptional trade measures.

There is no deficit in the EU sugar market balance.

2. SUGAR PRICES HAVE INCREASED AROUND THE WORLD

EU sugar prices have clearly increased over the past year. This is due to serious costs pressures in the shape of higher energy prices (gas and coal), higher beet prices (owing to higher fertiliser prices, diesel and labour costs, and a shrinking phytosanitary toolbox that is negatively impacting yields and made beet cultivation more costly and less attractive), higher operating costs (transport, logistics, packaging) and other inflationary pressures (steel, construction materials, processing aids, investments for decarbonisation). Although energy prices have fallen somewhat over the past months, the cost effect during the last beet campaign was enormous.

Moreover, it cannot be ignored that the issue of plant protection of sugar beet crop is now becoming a real challenge. The rapid and drastic shrink in the growers' toolbox is affecting all active substances, be it to control pests and diseases or weeds. European sugar beet growers recognise that their productivity (sugar yield per hectare) is structurally affected in the short-term due to a lack of effective alternatives for a satisfactory control of harmful organisms. It is therefore all the more necessary for growers to at least maintain their income to avoid a further decrease in EU sugar beet areas.

These cost pressures are not unique to the EU, and sugar prices have increased around the world. As before, EU sugar prices remain below those in the U.S., Mexico, Russia, and China (other major exporters of processed sugar containing products). Therefore, it is disingenuous to claim that EU sugar prices are undermining export competitiveness. This is leaving aside the fact that higher sugar prices are not a deciding factor in the competitiveness of a processed sugar-containing product (see next part).

CIUS refers to the world market price as a benchmark for EU sugar prices. In fact, the world sugar market is a residual dump market where excess production is sold at "everything must go" prices that in many cases do not cover the production costs of even some of the most competitive world sugar producers. The world sugar market is further depressed by export subsidies by countries such as India, which was only recently condemned by the WTO for this practice. In addition, the EU white sugar price cannot be compared with the world market price since the latter does not include insurance and freight costs. Therefore, the world sugar market cannot be considered a benchmark for the EU sugar market price and must not be if sugar users indeed want to safeguard the long-term sustainability of domestic EU sugar production.

Higher EU sugar prices reflect costs pressures and not a lack of availability.

3. THE MATERIAL IMPACT OF HIGHER SUGAR PRICES ON FOOD INFLATION IS EXAGGERATED

Sugar has over the past years been an under-priced product making up a small proportion of the total value of processed sugar products. In a sample of supermarket products undertaken by CEFS, at February 2023 prices sugar accounted for just 3% (5 cents) of the sales price of an own-brand ice cream (€1.59) and 7% (9 cents) of the sales price of own brand waffles (€1.29). Between February 2021 and April 2023 the increase in sugar prices would have increased the overall cost to produce each product by just 1.6% in the case of the ice cream and 3.6% in the case of the waffles.

Higher sugar prices are not a primary driver of food inflation.

4. STRONG RULES OF ORIGIN DO NOT UNDERMINE EXPORT COMPETITIVENESS

Weight-based rules of origin ensure that the benefits of increased exports of sugar-containing products resulting are passed down to EU sugar manufacturers and sugar beet growers. They also provide a far greater level of predictability for operators and are easier to control for customs authorities compared to value-based rules of origin, given the high volatility of sugar prices.

In most cases such rules limit the use of non-originating sugar to 40% of the total weight of the processed product (and sometimes even more) if sugar users wish to benefit from the tariff preferences within a free trade agreement (FTA).

This means such rules would have a negative impact only in cases where no sugar from the EU (or the FTA partner) is available. As discussed above, there is no shortage of EU sugar. In addition, sugar users are able to use (and are already using) inward processing to import sugar needed for use in processed products for re-export.

There is no evidence that strong rules of origin undermine EU export competitiveness.

5. SUGAR USERS' REQUEST FOR COMPLETE SUSPENSION OF IMPORT DUTIES IS DISPROPORTIONATE AND IRRESPONSIBLE

CIUS claims to favour being supplied with locally produced EU sugar.

Unfortunately, this claim is directly and entirely contradicted by their disproportionate and irresponsible request for a complete suspension of import duties.

This request would flood the EU market with dumped and subsidised sugar produced overseas under much lower social and environmental conditions. And it would severely damage the long-term sustainability of the EU beet sugar sector, for which CIUS claims to have a preference. Indeed, CIUS members' own ambitious sustainability objectives (frequently conveyed to CEFS members) can only be reliably met by sustainable beet sugar produced under high environmental, economic and social standards in the EU.

Past experience has shown that the suspension of import duties would also have a counterproductive effect – diametrically opposed to CIUS' long-term objectives – as it would negatively impact sugar prices and lead to a reduction in EU sugar beet areas, increasing the EU's dependence on the world sugar market, which is both less reliable and less sustainable.

In addition, the complete suspension of import duties would undermine the exceptional trade preferences granted to Ukraine that are intended to support that country's economy and balance of payments as it defends itself against Russian aggression.

After the end of production quotas sugar users were happy to profit from unprecedentedly low sugar prices and in some cases even forced renegotiation of contracts to profit from the price collapse. This led directly to the closure of 15 beet sugar factories and the loss of over 4,500 direct jobs.

It is in the interests of sugar users to support the long-term sustainability of the EU beet sugar sector rather than strive for sugar at the lowest possible price regardless of the consequences for domestic EU production and without consideration of the production standards of the imported sugar they purchase. Our sector's long-term sustainability can only be assured by ensuring it is protected from unfair competition, particularly at a time when huge investments are needed to decarbonise sugar production in the EU.

Sugar users' requests would condemn additional EU beet sugar factories to closure.

I'd like to thank you for considering these points. CEFS, CIBE and members remain at your disposal for further exchanges as appropriate.

Yours Sincerely,

[E-SIGNED]	[E-SIGNED]
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Director General, CEFS	Director, CIBE

In copy:

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