CORPORATE SOCIAL RESPONSIBILITY

CODE OF CONDUCT OF THE EUROPEAN SUGAR INDUSTRY

Eighth implementation report (year 2010)

28.2.2011

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INTRODUCTION

The Code of Conduct on corporate social responsibility in the sugar industry, signed on 7 February 2003, states that EFFAT and the CEFS are to monitor the progressive implementation of the Code and regularly update the examples of good practice within the framework of their sectoral dialogue committee. To this effect, EFFAT and the CEFS have undertaken to carry out a joint evaluation of implementation of the Code at European level each year, in February, in the form of an annual report covering the previous calendar year.

The first report on implementation of the Code was presented at the plenary session on 27 February 2004. Since then an implementation report has been presented on the last working day of February in 2005, 2006, 2007, 2008, 2009 and 2010. The present report constitutes the eighth implementation report, covering the year 2010, and will be presented at the plenary session of the sectoral committee for the sugar sector on 28 February 2011. These different reports can be accessed on the joint site "www.eurosugar.org".

I – ECONOMIC AND POLITICAL CONTEXT

I.A – NEW SUGAR REGIME AFTER THE REFORM & MANAGEMENT OF THE CMO IN SUGAR

a) Regulatory completion of the reform of the sugar regime

With the aim to preserve the market balance, the reform of the sugar regime of 2006 targeted a reduction in production quotas by six million tonnes by September 2010. On the 31.1.2009, the deadline for relinquishment of quotas, abandonment of quota sugar – plus isoglucose and inulin – by the different sugar companies amounted to 5,773,364 tonnes. On the 27.1.2010, the Commission announced that with a rate of reduction in production reaching 96.6% of the initial target, it considered the reform to be successfully completed (IP/10/59). **In the view of the social partners the success of this reform can only be naturally analysed in time, on the basis of the economic changes that it brings about and their social impact.** It should also be noted that the legal framework of the new sugar CMO has been set until 2015. In April 2010, the Commission launched a public debate on the future of the CAP post 2013 (end of the current budgetary prospects). **The social partners will have to pay a specific attention to the development of this debate and its potential impact on the sugar regime.**

In the frame of the recent sugar CMO integration into the single CMO, in particular, they already remark that the beet sugar sector is unique in the CAP in having to bear a production charge (12 Euros/t), whereas this charge is not levied on imports (also see the Court of Auditors' report § 90). **They ask a removal of the production charge when the CAP financial perspectives are reviewed.**

b) New market balance: from being a net exporter, <u>the EU is becoming a net importer</u>

A direct consequence of the reform has been a fundamental modification of the balance on the European sugar market in just three years. In particular, it has set a new balance between Community production and preferential imports from the ACP countries and the LDCs. Today, the European Union depends on supplies from third countries to meet 15 % of its domestic needs and has become the second largest net importer of sugar in the world, whereas it was a net leading exporter before the reform. The Court of Auditors in its 2010 Report[1] underlines that the EU has consequently become more dependent on imports for what is a strategic product for the agro-food (§58 § 101) and highlights that the increased rights of access from third countries also provides an incentive for producers to invest in those countries, with a risk of delocalisation of certain EU production facilities (§60 § 101).

Actually the latest figures available for marketing year 2010/11[2] indicate an EU production of 13.8 million tonnes and an EU consumption of around 16.5 million tonnes. One of the objectives of the reform was to provide a stable outlet for the LDCs and the ACP countries. Following the reform, total EU imports rose from 2 million tonnes in 2005 to 3.1 million tonnes in marketing year 2009/10, with a forecast of 3.6 million tonnes for marketing year 2010/11[3]. **The European sugar industry is therefore making a real contribution to the development of these groups of countries** and is "acting as a driver for economic activity in LDC" as reported by the Commission in its reply to the Court of Auditors (§56 COM).

The stability of this outlet for preferential sugar must not be called into question by further concessions on the part of the European Union within the framework of bilateral, regional or multilateral agreements. Similarly, **EU production cannot be regarded as the only adjustment variable on the EU market,** since such a situation would result in a reduction in production and therefore further factory closures and job losses.

Regarding the increased dependency on imports, in its reply to the Court of Auditors, the Commission indicates that the level of self-supply within quota around 85 % can be considered satisfactory and stresses that "**the regime incorporates the necessary instruments to deal with hypothetical situations of undersupply of the EU market mainly by converting available out-of-quota sugar into quota sugar." (Reply of the Commission - § 58).**

[1] Report of the European Court of Auditors N° 6 -2010 – "Has the reform of the sugar market achieved its main objectives ?" See the following website http://eca.europa.eu/portal/page/portal/publications/auditreportsandopinions/specialreports

[2] DG AGRI forecasts for marketing year 2010/11 – Assemblée Générale CGB Paris 7.12.2010

[3] Source : DG AGRI balance sheet 19.10.2010 (CEFS General Assembly)

c) high volatility of world prices and necessity of ensuring *__EU food security and sustainability__*

Maintaining an adequate level of import tariffs and protection against extreme volatility of prices is also essential. It should be recalled that, before the sugar reform, the intervention price for sugar was 631.9 Euros/t; following to the reform a reference price was set by gradually reducing the former intervention price to 404.4 Euros/t. There is no longer any intervention system for the sugar. Before the reform, the intervention price was on average much higher than the world market price (About 600 Euros versus 400 Euros). In 2010 conversely the world market price was several times well over the EU reference price (up to 750 Euros/t). This extreme volatility, upwards as well as downwards, can be explained by substantial changes in supply, strongly affected by unpredictable climatic conditions, drawing attention to climate change challenge. It should also be noted that a country like Brazil, which is the first world sugar producer, can considerably influence the world market prices just by increasing or reducing its sugar production and consequently modifying its export volumes[4]. In such a context, the widening of imports from third countries increases the risk of instability of supply, whereas the EU industry had always proven to be an extremely reliable source of supply over a long period of time (See <u>in Annex 1</u> the "Open letter to decision makers of the European institutions" of 9 November 2010). In the frame of the debate on the CAP post 2013, **the social partners of the sugar industry recall that it is essential to maintain an import management policy which enables the EU to achieve its objective both for food security and sustainability.**

d) Need to be able to export non-quota sugar *__beyond WTO commitments__*

Following the sugar panel at the WTO, exports of out of quota Community sugar were limited to a level of 1.37 million tonnes (compared to an annual average of 6.5. million tonnes before the reform). However, during marketing year 2009/10, in the context of exceptional market conditions[5], the Commission authorized the EU to export an additional 500,000 tonnes of out of quota sugar whilst complying with the WTO rules. As regards the 2010/11 marketing year, which started on 1st October 2010, DG AGRI has opened a first tranche of exports of out-of-quota sugar of 650,000 t and announced on 11 November that it intended to increase the out-of-quota export up to 1 million tonne.

In its reply to the European Court of Auditors[6], on this topic, the Commission underlines that not all sugar exports should be kept within the limit imposed by the WTO ruling, but only subsidised exports (§7). **For the future the social partners expect that the Commission will**

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[4] In 2009 Brazil represented 50 % of world exports and exported 75 % of its production (ISO statistics 2010)

[5] Exceptionally high EU production, shortage on the world market – See the CSR report covering year 2009

[6] Report of the European Court of Auditors N° 6 -2010 – "Has the reform of the sugar market achieved its main objectives ?"

re-examine the 2005 Panel conditions with the objective of lifting the WTO export limit, so that the EU has the same freedom to export as any other trading region in the world.

e) Although funded by the sugar profession, the unused balance of the restructuring fund will be paid back to the general CAP budget

The restructuring fund created in 2006 was closed on the 31.1.2009 as regards the relinquishment of quotas. In return for this relinquishment, a company was entitled to receive restructuring aid decreasing in time, provided that it fulfilled a number of conditions, such as presenting a restructuring plan including, among other things, a social plan. This restructuring fund was fed by a financial contribution by the sugar profession. Around 640 million Euros have not been used and – according to the regulations – should be paid back into the general CAP budget (European Agricultural Guarantee Fund).

At a conference organised on 28 October 2009 on improving employability in the sugar industry, the social partners asked the Commission to appropriate this amount to the financing of industrial measures still in course.

This request was partly heeded. In Regulation 1204/2009 of the 4.12.2009 (OJ L 323/64 of the 10.12.2009), the deadline for implementing the measures decided on within the context of restructuring plans and national diversification programmes was deferred until the 30.9.2011, on presentation by the company of a modified restructuring plan. Payments by the Member States were extended until the 30.9.2012. Beyond this date, the unused amount will be paid back into the CAP budget, although the fund was entirely funded by the sugar profession. **This does not entirely meet the social partners' demand.**

I.B - TRENDS IN EXTERNAL TRADE POLICY HAVING AN EFFECT ON THE REGIME

It should be recalled that the reform of the sugar regime is a result, firstly, of external pressures ("Everything But Arms" agreement - Loss of the sugar panel at the WTO) and, secondly, internal pressures (reform of the Common Agricultural Policy). As indicated above, the result is that from being a net exporter of sugar the EU is becoming a net importer. However, the restructuring imposed with a view to improve the competitiveness of the sugar industry could be increased substantially by measures connected with the EU's external trade policy choices with a risk, if the necessary precautions are not taken, of endangering the sustainability and viability of the sector. This would not be consistent with the priorities set by the Communication of the Commission on the Future of Trade of 9.11.2010, aiming in particular at job creation[7].

[7] Commission Communication COM(2010)612/4 "Trade, Growth and World Affairs – Trade policy as a core component of the EU's 2020 strategy" – IP/10/1484

It is a matter in particular of the following trade questions:

- Multilateral negotiations: continuation of the Doha Round
- Regional agreements: EPAs – ACP countries - LDCs
- Bilateral agreements: free trade agreements in course of negotiation
- Rules of origin applicable to the GSP and other FTAs

a) ***Multilateral negotiations: continuation of the Doha Round***

The Doha Round, the aim of which was to favour the development of poor countries, is taking a much longer time than expected to be concluded for political reasons: for the United States in particular the WTO negotiations are not a priority. The technical work which began seven years ago is ongoing at the WTO departments in Geneva because there is still a strong political will to try to consolidate and finalise the results obtained as soon as this can be envisaged politically. Commission's objective would be to try and conclude the negotiations in 2011.

For the sugar sector, the "package" that has already been negotiated contains a number of points considered to be reasonable, such as:

- The possibility of maintaining the special safeguard clause (SSC) for sugar even if it is only for seven years, providing protection against imports in certain conditions.
- The possibility of designating sugar a "sensitive product" and thus escaping a considerable reduction in customs duties on imports which would be incompatible with the level of domestic prices fixed by the reform of the regime and would be liable to aggravate the consequences substantially. However, such a designation would entail the obligation to accept a duty-free tariff quota representing 4% of domestic consumption. This tonnage of about 700,000 would weigh heavily on the Community's sugar supply balance and would destroy the equilibrium in the reform. No final decision has yet been taken by the CEFS on the question of whether sugar should be treated as a sensitive product or not.

The sugar sector hopes that these elements will be respected in future negotiations and that sugar will indeed be treated as a product benefiting from a longer period of tariff reductions (gradual erosion of preferences) and not as a tropical product (for which customs duties would be reduced by 85%).

b) *Regional agreements*
Liberalisation of imports from the ACP countries and the LDCs

Since 1st October 2009, Community imports of sugar from the ACP countries[8] and the LDCs[9] have been completely liberalised, in accordance with the "Everything But Arms" regime[10] and the denunciation of the "Sugar Protocol", included in the former Cotonou agreements. The Economic Partnership Agreements (EPAs) now govern relations between the EU and the

[8] ACP countries: African, Caribbean and Pacific

[9] LDCs: Least Developed Countries

[10] GSP Regulation No 732/2008 of the 22.7.2008 OJ L 211/1 of the 6.8.2008 – Section III – Article 11

ACP countries, divided into six regions. Council Regulation EC/1528/2007 of the 20.12.2007 (OJ L 348/1 of the 31.12.2007) sets out the general agreements concluded for sugar and products containing sugar.

In order to avoid a level of imports which the EU could not absorb without a risk to the market organisation, the Commission proposed a safeguard clause for the period 2009-2015, with complete liberalisation in 2015. This clause is relatively complex and the trigger point is high (double level of 3.5 million tonnes and 1.38 million tonnes for 2008/09 gradually increasing to 1.6 million tonnes in 2014/15). Regulation No 828/2009 of the 10.9.2009 (OJ L 240/14 of the 11.9.2009) establishes the detailed rules of application for imports and the refining of sugar sector products until 2014/2015 and explains how this clause functions.

The current level of imports from the ACP/LDC countries does not require this safeguard clause to be brought into effect. However, investments are being made in different third countries concerned by the liberalisation measures and it is too early today to evaluate with any certainty the growth in imports to occur in the long term. **It remains essential for the sugar sector for the management of a pragmatic, balanced and reactive market to be ensured continuously.**

c) Ongoing free trade agreements

With the multilateral negotiations at the WTO not yet finalised, the Commission is seeking to intensify the free trade agreements with third countries.

Mercosur

After a stop in 2004, the EU-Mercosur free trade negotiations resumed in May 2010. The sugar partners have major concerns regarding the negotiations in course. **As it was the case in previous negotiations, sugar and sugar products should remain completely excluded from any concession and no TRQ should be granted**. Brazil is indeed the first world sugar producer and the first exporter. In 2009, the country represented 50 % of world exports and exported 75 % of its production[11]. In addition, with a potential preferential access of nearly 700 000 t, Brazil can already export to the EU 20 % of all preferential imports of sugar as such. As mentioned previously, Brazil is also able to considerably influence the evolution of world sugar prices on the world market. Granting further concessions would expose EU consumers to more volatility, putting at risk the food security and sector sustainability. Finally WTO negotiations are ongoing and Mercosur negotiations should not be completed before the Doha Round is settled. **In order to avoid paying twice, both at bilateral and multilateral level, the social partners support the concept of "single pocket agreement" already discussed with Mercosur countries[12].**

[11] International Sugar Organization – Statistics 2010

[12] Letter of CEFS to Commission President Barroso of 10.5.2010

Central America, Colombia, Peru

Negotiations with Central America and Colombia/Peru concluded by the Commission include concessions on sugar. A zero duty tariff rate quota was granted for 276 000 tonnes (sugar and sugar products) plus a perpetual annual increase in percentage. **Such a provision is considered as deeply destabilising for the EU market**. The concession granted represents nearly 2 % of EU consumption and more than 2 % of the remaining EU quota production. Commission's objective is to implement these agreements in 2012. The Council is still expected to give its final agreement in spring 2011 and the European Parliament will also have to give its assent, but this should not modify the agreement concluded with the Commission.

Other FTA ongoing negotiations

A particular attention should still be given to rules of origin in the context of several ongoing FTA negotiations, for instance with Singapore, which is not sugar producer but has refining capacities, as well as with Canada, asking that refining does confer the origin, whereas the EU position is – and should remain – that refining does never confer the origin. Negotiations are also in course with the SADC region, which includes South Africa, producing 2.234 million tons sugar. Sugar and sugar products should of course remain excluded and efficient rules of origin maintained. The same is true for Ukraine, for which a TRQ of 10 000 t sugar has still been offered as well as a TRQ of 1 000 t for some high sugar content products.

The social partners consider that any further concession granted by the Commission in the bilateral negotiations in course would go beyond the commitments entered into in the reform of the sugar regime and would be of a nature to endanger the market organisation.

d) More secure rules of origin applicable to the Generalised System of Preferences recently adopted

After five years of intensive work and several joint positions by the social partners, the draft Regulation of the Commission aiming at a revision of preferential rules of origin applying to the General System of Preferences (covering 176 developing countries) was adopted on 18 November (Regulation EU/1063/2010 – OJ L 307/1 of 23.11.2010). Implementation will take place on 1.1.2011 for the rules determining the origin and on 1.1.2017 for a new system of registered exporters. The partners' requests have been correctly taken into account so that these new rules should prove secure for the sugar sector for the long term. The "mixing of sugar with any material", considered as a minimal operation, can in particular never confer the origin. Refining also cannot confer the origin since this operation does not lead to a change in four digit heading and a specific Annex prevents from cumulation between a LDC country and a non LDC country. **This outcome has therefore to be considered as a success which was partly due to the constant joint work of the social partners.**

I.C – SUGAR AND CLIMATE CHANGE: ANTICIPATING THE ECONOMIC AND SOCIAL IMPACT OF THE EUROPEAN EMISSION TRADING SCHEME

In the context of its policy on climate and energy, the European Union has set some ambitious objectives for 2020:

- reduction in greenhouse gas emissions of at least 20% compared to 1990 (30% if the other developed countries undertake to reduce their emissions to a comparable extent);
- increased use of renewable energies to a level of 20% of total energy production (as opposed to ± 8.5% at present);
- reduction in energy consumption of 20% compared to the level forecast for 2020, through improved energy efficiency.

One of the main measures approved in December 2008 is aimed at reducing total emissions by major energy-consuming industries – including the sugar sector – by 21% between now and 2020 compared to their levels in 2005. The key tool for this will be lowering the number of emission quotas granted within the European Union's Emission Trading Scheme (which concerns about 40% of the Union's total emissions).

The EU has provided for a system which is supposed to "protect" industries said to be at risk of 'carbon leakage' in order to reduce the risk of factory closures in Europe and the replacement of this European production by equivalent production in a third country where the environmental obligations linked to climate change are less severe. These industries at risk of carbon leakage, which include the sugar industry, are supposed to receive 100% of the emission quotas free of charge between 2013 and 2020 but in actual fact this is a calculation concerning the 10% most efficient factories in each sector. In practice, it is estimated that for European sugar factories the number of emissions not covered by this measure could be between 20% and 50% of real emissions which, depending on the factory's energy efficiency, could involve between 1 and 2.5 million euros in additional annual costs per average size factory[13] as from 2013. Factories running on coal and having no access to natural gas could have to pay proportionally more.

The CEFS has initiated a campaign among European decision-makers to make them aware of the specific characteristics of the sugar sector focused on the following factors:

- The historical presence of sugar factories in rural areas is linked to the economic need to be close to the raw material. In effect, beet consists of 75% water and gradually loses its sugar content once it is harvested. It cannot, therefore, be transported over long distances, as is the case with other raw materials such as cereals or oilseeds.
- Their presence in rural areas therefore has negative effects as regards the accessibility of sugar factories to gas and electricity sources with sufficient power to supply

[13] This calculation is based on a factory producing on average 150 000 t of sugar

factories during the campaign, which is short but intense in terms of energy consumption. Consequently, in all beet-sugar factories the only reliable source of energy supply is self-generation (combined heat and electricity).

- Many sugar factories would be placed at a disadvantage if the allocation of emission quotas was based on a system in which the distribution key was natural gas and not access to the gas distribution mains for each industrial site. Likewise, sugar factories cannot claim the compensation provided for at national level for major electricity users since they generate their own electricity. Each factory must be assessed on the basis of its relative access to the gas mains. The indissociable link between self-generation of energy and the necessary location of many sugar factories in rural areas must be taken into account.
- Over a short period, the reform of the sugar CMO has radically changed the industrial landscape of the sugar sector. During the reform, when a factory was closed down, part of the production quota was often transferred to another factory. It would therefore seem inappropriate for the Commission to take a reference period of 2005 to 2008 to grant emission quotas to sugar factories which will still be open in 2013. As the phenomenon of the transfer of quotas was definitively consolidated in 2009, only 2009 must be taken as the reference year for sugar factories.
- Finally, the sugar sector is a major user of lime kilns, which are present in practically all beet-sugar factories. However, the kilns in the sugar industry are different from those in the solid sugar factory lime industry because the emissions from the process are recombined and end up in sugar lime. Consequently, several countries have applied the solution of allocating to lime kilns in sugar factories the emissions calculated in relation to the coal which supplies the kiln, and not the emissions linked to the limestone. **The social partners ask the adoption of the same solution as from 2013 for lime kilns in sugar factories when the EU system replaces all the existing national solutions.**

In December 2010, the Commission proposed detailed rules for the calculation of free allowances to be allocated during the transitional phase 2013-2020. These detailed rules are key to improving (or in some cases, worsening) the situation of sugar factories under the ETS system. **In addition to its direct contact with EU decision-makers, CEFS has launched several joint initiatives, including two joint letters together with, on the one side, EFFAT (See Annex 2)** and the Beet growers Association (CIBE) and, more recently, with the European Association for the promotion of Cogeneration (COGEN Europe) and CIAA[14]. In spring 2011 the European Parliament and the EU Council of Ministers should decide on the final validation of the Commission's proposed allocation rules that shall apply from 2013. As a main conclusion it is highlighted the need for the EU to ensure a level playing field by preventing unfair competition between EU sugar production and competing imports which would not respect similar environmental obligations and costs.

[14] The European agro-food federation

I – D -HIGH LEVEL FORUM FOR BETTER FUNCTIONING FOOD SUPPLY CHAIN

As a result of the Recommendations of the High Level Group (HLG) on the competitiveness of the Agro-Food industry adopted in July 2009 and of one recommendation of the Commission Communication on a better functioning food supply chain in Europe published in October 2009[15], the Commission decided at the end of July 2010 to establish a High Level Forum for a Better Functioning of the Food Chain (the Forum on HLF). This HLF will assist the Commission with the development of the industrial policy in the agro-food sector, following the recommendations of the HLG and the Commission Communication. Representatives from the sugar industry as well as from the EFFAT were appointed to participate to these works and can concert each other as necessary.

In July 2009, the HLG on the Competitiveness of the Agri-food industry set up by the Commission adopted Recommendation N° 18 stating that "*The High Level Group members recommend the European sectoral social dialogue as a tool of good governance. Upon joint request of the European social partners, the European Commission could examine their representativeness with a view to assess the feasibility of creating a Social dialogue committee in the agro-food industy*". The reason was explained as follows : "**social dialogue is one of the pillars of the European social policy and is recognised as a tool of "good governance". The main objectives for the European social dialogue are: a better understanding to facilitate consensus, better capacity to promote the sectoral interests and capacity to act together. Even though such a dialogue has been already successfully achieved in the sugar sector, it has not achieved yet for the entire food industry."[16]**

In this context CIAA and EFFAT are currently discussing about the creation of a new sectoral social dialogue committee for the agro-food industry. **It seems important that the sugar dialogue committee and the agro-food committee can work in parallel in a harmonized way,** making sure that in case of any potential conflicting topic, the partners of the two committees will concert themselves to avoid any counterproductive action within the agro-food sector. Numerous topics can be common interest issues, like for instance vocational training, anticipation of needs for skills and competences or employability, which are at the heart of the EU 2020 strategy. Some topics might be more sensitive in particular regarding the trade policy or some other EU policy, where the interests of the first and second processing might be different. Respect and concerted initiatives should prevail.

[15] COM 2009 591 final

[16] HLG on the competitiveness of the agro-food industry - Final report of the sherpa sub-group deliberations – 17.3.2009

CONCLUSION OF PART I OF THE CSR REPORT

Observing that the different EU policies are often not consistent with each other and do not offer convergent objectives, the European social partners are very concerned about the future of the sugar industry. This is particularly true for the external trade, development or climate policies. Ensuring consistency between the various policies is crucial, as also noted by the Court of Auditors.[17]

This is particularly relevant for the relationship between the CAP and the EU's trade and development agendas. The social partners have responsibly contributed to a new balance on the EU market. ACP and LDC (now EPA-EBA) countries are now enjoying the benefits of these changes in the form of duty free access. This preferential access should not be undermined or eroded by new concessions to third countries through bilateral trade agreements or at WTO level.

The stability of supply remains at key priority. This implies that EU consumers' demand should be largely secured by a competitive domestic sugar industry. A new structural balance between domestic sugar consumption and preferential imports has been reached. About 85 % of total EU consumption is covered by domestic production and should remain covered by domestic production. To remain sustainable the EU sugar sector needs stability, predictability and legal certainty.

Regarding stability, it is not acceptable that European sugar producers should be considered as the "adjustment factor" to enable the EU to respond to fluctuating or increasing imports. The effort made within the context of the reform of the sugar regime was already considerable and had serious consequences for employment. As noted by the Court of Auditors in its sugar Report, "future increase in sugar imports would have an adverse impact on the balance of the sugar market [...] resulting in additional factory closures" (§ 57). The current policy will ultimately lead to such situations, resulting in further reduction of EU production capacity, with consequent social impacts, in particular in rural areas. It should be recalled that a reduction in quotas of 100,000 t represents on average the closure of one factory in the EU. Once closed a factory cannot be reopened. The process is irreversible. The social partners have identified priorities to ensure a sustainable and competitive sugar sector until 2015 and beyond 2015, in particular:

- **Import policy: an import management policy which enables the EU to achieve its objectives for food security and sustainability. The considerable efforts already demanded to the sugar sector, as well as the long term investments made to**

[17] Report of the Court of Auditors N° 6 2010 Recommendation N°1 : « The prevailing external pressures may require the Commission to propose further adjustments of internal production. In such case, the Court recommends that instruments and measures should be designed so as ***to ensure overall consistency***".

improve efficiency should not be jeopardized by exposing the industry to extreme world market volatility.

- **<u>Export policy</u>: in the middle term the original conditions of the WTO Panel ruling, should be re-examined, so that the EU has the same freedom to export as any other trading region in the world.**

The current situation where the sugar industry has to face restrictions on exports while new additional duty free imports are continuously imposed is not sustainable in the long term.

Furthermore, in case of shortage of the EU market, the Commission indicated in its reply to the Court of Auditors that the regime incorporates the necessary instruments to deal with such situations mainly by converting available out-of-quota sugar into quota sugar. <u>Priority should be given to such market instruments over the granting of additional TRQs.</u>[18]

The social partners are also concerned by some internal policies as the <u>current climate policy</u> and urge the Commission not to add further constraints which might as well put the industry at risk, particularly in vulnerable rural areas.

[18] See Court's report Recommendation N° 1 – Commission reply § 58 and CIBE-CEFS letter of 22.10.2010 to Commissioner Ciolos

II – MANAGEMENT OF RESTRUCTURING

II.A - MONITORING OF FACTORY CLOSURES AND THE RELINQUISHMENT OF QUOTAS

The social partners have been monitoring factory closures on the basis of public information, press releases and information received through trade union representatives for EFFAT and human resources managers for the CEFS. Essentially, they base themselves on public information provided by companies. Below – as on the 31.12.2010 – is the trend in the situation for marketing years 2005/2006 (adoption of the reform) through to 2010/2011:

a) *Trend in factory closures since 2005/2006*

Source: CEFS statistics 2010 (EU 25)[19]
www.cefs.org

	2005/2006 (Reference year- Adoption of the reform)	**2006/2007**	**2007/2008**	**2008/2009**	**2009/2010 (31.12. 2009)**	**2010/2011 (31.12.2010)**
Number of factories	183	152	133	104	102	
Closures	(7 compared to 2004/05)	31	19	29	2	**Factories closed between 2005/06 and 2009/10: 81**
Countries	Ireland, Lithuania, Netherlands, Poland	Austria, Czech Republic, Germany, Ireland, Italy, Poland, Slovakia, Spain, Sweden	Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Latvia, Poland, Slovakia, Slovenia, Spain, United Kingdom	Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Portugal, Spain	Poland, Spain	
Relinquishment of sugar quotas	-	Ireland, Italy, Portugal, Spain, Sweden *(1.149 Mio t)*	Czech Rep., Finland, Greece, Hungary, Italy, Latvia, Portugal, Slovakia, Slovenia, Spain *(0.678 Mio t)*	Belgium, Denmark, Germany, Spain, France, Italy, Lithuania, Hungary, Netherlands, Poland, Portugal, Slovakia, Slovenia, Sweden, **Accumulated relinquished sugar 31.1.2009: 5,230,331**	Spain	
Decrease of direct jobs during the campaign	47 340	38 879	35 221	29 591	27 546	**Jobs lost between 2005/06 and 2009/10 : 19 794**

[19] These statistics do not include Bulgaria and Romania with a view to better show the evolution in the EU 25 starting from the reference year of adoption of the sugar reform.

b. Relinquishment of quotas

Between 2006/07 and 2009/10 (4 marketing years), 5,230,331 tonnes of quota sugar were relinquished, along with 222,316 tonnes of isoglucose and 320,717 tonnes of inulin, i.e. a total of 5,773,364 tonnes.

The relinquishment of sugar quotas can be broken down as follows:

PERCENTAGE	COUNTRY
100%	Bulgaria, Ireland, Latvia, Portugal, Slovenia
At least 50%	Greece, Hungary, Italy, Slovakia, Spain
45%	Finland
19-25%	Belgium, Czech Republic, Denmark, France, Germany, Lithuania, Poland, Slovenia
14-15%	Austria, Netherlands, United Kingdom
4%	Romania

II.B - ECONOMIC AND SOCIAL IMPACT

a) Concentrations – New activities

These tables show that **all the regions of the EU have been affected by the reform**: Northern, Southern, Central and Eastern Europe. Restructuring is proving to be even more difficult given the fact that it is taking place **in rural areas** where unemployment is already present and where there are few opportunities in terms of employment.

A number of countries which were previously producers have already shut down production completely, especially **Bulgaria, Ireland, Latvia, Portugal and Slovenia.**

The number of sugar companies in EU 25[20] fell from 68 in 2005/06 to 48 in 2009/10, i.e. one third of companies. To remain competitive, the industry has had to carry out further mergers and continue with its concentration (for instance : merger of the Danisco sugar branch with Nordzucker giving birth to Nordic Sugar A/S, merger of Azucarera Ebro with British Sugar).

A number of companies are reorienting their activities, be it a question of refining (France, Italy, Portugal), biomass or ethanol production (Belgium, France, Germany, Italy) or additional activities or diversification (France – Tereos, cereals, alcohol, starch) or even in some cases activities totally different from their previous ones (Italy – agro-food and retail).

[20] Bulgaria and Romania are not included in the above statistics on development of factory closures

b) <u>Heavy job losses</u>

According to above statistics, over the same period, **81 factories have disappeared (i.e. 45 % of factories since the start of the reform), leading to the loss of 19,794 direct jobs during the campaign**. It is generally acknowledged in the sugar industry that the loss of one direct job gives rise to the loss of five indirect full-time or part-time jobs (transport, logistics, IT, etc.). Some 100,000 indirect jobs would then be concerned during the campaign.

II – C - 2010 REPORT OF THE COURT OF AUDITORS AND <u>COMMISSION REPLY</u>

In its Report on the reform of the sugar market, the Court of Auditors states that "as a result of the reform, some 80 factories were closed across the EU. Member States were not required by the Commission to report on the <u>direct social impact of the production facility dismantlement</u>. [ ]..There is no comprehensive data on the impact of quota renunciations on the local economies, on how many jobs were lost or alternative employment of the staff previously employed at the factories which were dismantled" (§73). It also highlights that "the abandonment of sugar beet production and the closing down of factories have an important direct and indirect impact on the agricultural community and regions concerned including a significant number of job losses (§ 103)" and that "neither the Commission nor the Member States concerned had put in place an adequate <u>follow-up of the social consequences of the restructuring.</u> There is thus no comprehensive data on the impact of quota renunciations on the local economies" (§104). The Court also underlines that "in various Member States, the <u>diversification aid measures had</u> yet to become fully operational at the moment of the audit visits. The time lag between the factory closures and the implementation of diversification measures may result in hardship in those regions affected" (§105). "The Court recommends that the Commission and the Member States take urgent measures to ensure the diversification measures become rapidly operational and produce the intended impact to promote alternatives to sugar beet and sugar production" (Recommendation N° 5).

<u>Commission reply and acknowledgment of the European Social Dialogue</u>

To these comments, the Commission replies that, in line with the principle of subsidiarity, the responsibility for addressing the consequences of factory closures, including the implementation of the necessary diversification measures, lies with the Member States (Summary –VII – p. 58 – and § 61 § 72 § 73 **<u>§ 104</u>**). It underlines the diversity of national rules and situations in the Member States and the fact that social plans are drawn up in agreement with the Trade Unions.

The role of the sectoral social dialogue committee for sugar is highlighted, as well as the CSR Code of Conduct (§ 73). The position of the Commission is summarized in § 104: "In line with the subsidiarity principle, the legislator has given responsibility for the implementation and follow-up of the social consequences to the Member States, which are better placed to perform this task. MS authorities must check that social obligations are implemented in compliance with social plans… Social plans for the most part are drawn up in agreement between the producer and workers/unions. Fulfillment of obligations – training, redeployment, compensation, etc- will also be monitored by the parties involved".

The Commission also highlights the role of the European social dialogue and mention the CSR Code of Conduct as follows: "Furthermore the Commission hosts the sectoral social dialogue committee for the sugar industry which comprises representatives from trade unions and sugar

industries. In particular this committee has agreed a Code of Conduct of the European Sugar Industry on Corporate social responsibility which has been extensively applied in the context of the reform".

It must also be added that – through their annual CSR implementation reports and joint plenary meetings – the European social partners have regularly reported on the economic and social impact of the sugar reform in the different EU countries on basis of official CEFS statistics and public information received.

CONCLUSIONS OF PART II OF THE CSR REPORT

There is no "ready-made" solution at European level. Each case must be analysed separately. Countries were responding in different ways to the challenges posed, according to national priorities geared towards employment, rural development, etc. Ultimately, it was not possible to have a European intervention model since the specific aid granted depended above all on the volume of quotas relinquished to the Commission.

With the exception of Italy where – following the closure of 15 sugar factories out of 19 – a specific agreement linked to the reform of the sugar regime has been concluded at national level, the social partners in the other countries have negotiated a social plan and administrations have been busy verifying the compatibility of these plans with the European regulatory provisions. In general, the social plans comprised a redeployment panel, financial compensation, training and early retirement. The balance between these different elements varies considerably from country to country depending on the national legislative and economic environment.

It should be noted that this the first time the Commission fully acknowledges the role of the European social partners in the management of the restructuring as well as the adequate implementation of the CSR Code of Conduct. This has to be understood as a recognition of the positive outcome of the sectoral committee's works conducted for years by the social partners in the context of restructuring (implementation of the CSR Code of Conduct, interactive web based tool on access to structural funds, interactive web based tool on employability, numerous debates on anticipation and management of the restructuring in the frame of the plenary meetings and/or specific conferences and meetings).

III – IMPLEMENTATION OF THE CODE OF CONDUCT IN 2010

III. A - MINIMUM STANDARDS

As is done every year, a survey has been carried out on the implementation of the CSR Code of Conduct in 2010 by the different delegations. This survey confirmed that the CSR process is developing constructively within each delegation, taking account of the necessity to favour a constant adaptation to change in the post-restructuring period following to the sugar reform, with a view to ensure the sustainability and viability of companies. All the measures are being taken at all levels in a systematic manner, integrated in the life of the company to go beyond the different minimum standards, particularly as regards health and safety (Standard 3 of the Code of Conduct), vocational training (Standard 2) and restructuring (Standard 7).

Standard 3- Health and Safety

Regarding Health and Safety, the Slovak delegation is presenting a new example of good practice related to the prevention of cancer. Observing that – in statistics covering all the population - the cancer incidence seems to be higher in the Slovak Republic than in the EU average and higher than the world average, the sugar Slovak industry decided to take preventive measures (See Annex 3).

Standards 2 & 7

In 2010, in the new post-restructuring context, with nearly 20,000 direct jobs lost in four years, the social partners focused more particularly on the need to improve employability in the European sugar industry. Observing at their plenary session in February 2008 that it is no longer possible today to guarantee long-term employment for employees in the same company, they achieved an interactive web based tool on employability, based on standard 7 of the Code of Conduct, which states that "in case of restructuring, the sugar industry acts in a socially responsible way. Steps are taken to improve the employability of employees". It also implements standard 2 of the Code of Conduct concerning lifelong training. This project naturally goes beyond the simple management of restructuring in so far as – in addition to the reform of the sugar regime – companies are today faced with a constantly changing environment which requires a new integrated and dynamic approach to the concept of employability.

III. B - ACHIEVEMENT OF AN INTERACTIVE WORKING TOOL ON EMPLOYABILITY IN THE SUGAR INDUSTRY

The social partners developed an interactive web based tool on employability, with the financial support of the Commission, from 1st December 2008 until February 2010. This tool was officially presented to the Commission at the plenary meeting of Friday 26 February 2010 (see CSR report 2009 as well as "www.eurosugar.org" tab "Employability-Interactive tool 2010).[21]

[21] See the "CSR report 2009" (Tab CSR) as well as the web based tool on the joint website:

www.eurosugar.org

a) __Content of the project__

In particular, this project allowed the following questions to be examined in greater depth:

- Definition of the concept of employability in the sugar industry
- Good practices in the sugar industry or the agri-foodstuffs industry (8 examples)
- Good practices outside the sugar industry (5 examples)
- Identification of success and employability factors for good internal and external practices
- Possible recommendations on the basis of the success and employability factors analysed
- Skills currently required in the sugar industry
- Skills that should be developed
- Skills common to different trades
- European and national financing possibilities in 20 sugar-producing countries
- A practical lexicon defining different concepts connected with employability regularly used within the context of the project.

It is presently premature to assess the use and utility of this tool. This exercise will be more fruitful after one year of existence. However, the reflexion developed to create this tool was a source of progress since it allowed a better understanding of the employability concept. The recent and topical good practice examples presented on employability, directly related to the sugar industry or agro-food industry, are also a source of progress for the future. Furthermore the tool was translated into three additional languages.

b. __Translation of the project into six languages__

In addition to the three previously existing versions (English, French and German) and as requested by the social partners at the plenary of February 2010, the tool was translated into <u>Italian, Spanish and Polish</u> with the financial support of the cross industry partners[22], ETUC and BusinessEurope through the "Integrated Programme of the European Social Dialogue 2009-2011 – Translation Fund of joint texts agreed by European social partners".

This translation includes the following parts of the employability tool:

. good practices (within and outside the sector)
. success factors and recommendations (internal/external)
. skills and competencies.

For other parts, like the "context", "foreword", "definition", "lexicon", it will be necessary to refer to the English version, or even the French or German versions. Regarding the financial resources identified, the interactive links present in the English, French or German versions allow to access to the specific national websites in all EU languages.

Tab "Employability-Interactive tool 2010".

[22] ETUC European Trade Unions Confederation – BusinessEurope : representing European employers

The English, French and German versions remain the official versions. The three new versions are currently posted as PDF dossiers on the "eurosugar.org" website (tab CSR). We will reflect on the possibility to introduce them as interactive tools, depending on the technical feasibility and cost.

c. ***About the lexicon***

At the Forum de Liaison meeting on 6th December, the Dublin Foundation celebrated the fifth anniversary of the "Eurofound Industrial Relations Dictionary" and presented an update of the Dictionary[23] containing about 300 terms. The CEFS Secretariat informed that for half of the terms retained in the "employability dictionary" (translated into three languages), the social partners referred to the Eurofound Dictionary. For the other terms not existing in this Dictionary they mostly referred to the Observia Dictionary[24] (for instance skills, jobs, professional know-how, position , trade, gateways...). The Dublin Foundation promised to have a look and incorporate these concepts if judged helpful.

d) ***Objective and relevance of the project***

This tool was conceived as an instrument for dynamic reflection which – with the help of the experience acquired in the sugar industry and in other sectors – should progressively be enriched by new contributions, both internal and external. Essentially, it allows the exchange of experiences and its objective, by opening up avenues of reflection, is to serve as a source of inspiration. In a constantly changing world, the responses to employability must themselves be constantly readjusted within the framework of a dynamic process. It is up to each company and each employee to assume reciprocal responsibility for an appropriate response in an ever-changing industrial environment**.**

This tool appears to be particularly relevant in the current context when employment and employability are at the heart of the EU 2020 Strategy, and most of its flagship initiatives, in particular the flagship initiative "An agenda for new skills and jobs"[25] and the flagship initiative "An integrated industrial policy for the globalization era"[26]. In the first initiative, more skilled force is one of the key priorities set up, with the need of rapidly changing skills and anticipation of skill needs. The potential of structural funds should be fully exploited to support this priority, in first place the European social Fund. These funding possibilities are analysed in depth in the joint "Employability" sugar tool. In the second Commission initiative, the development of skills is one of the ten key actions identified. It addresses topics as the need of new skills,

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[23] See the following website page

http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/

[24] Observia : French trade based observatory for the food producing sector – See the web based tool on employability – Examples of good practice – on "www.eurosugar.org"

[25] Communication from the Commission « An agenda for new skills and jobs COM(2010) 682/3 of 23.11.2010

[26] Commission Communication COM(2010) 614 of 28.10.2010 « An integrated Industrial Policy for the Globalization Era Putting competitiveness and Sustainability at Centre Stage"

more frequent career shifts, flexicurity, coordination between public sector and industrial partners in education and training policies.

On 7.12.2010, the European Ministers for Vocational Education and Training (VET) met in Bruges to define the long term objectives for the next decade (2011-2020) as well as short term objectives (2011-2014) in the context of the so-called "Copenhagen Process" and the EU 2020 Strategy. They released a Communiqué[27] in which employability is widely mentioned as a key factor to be taken into account, as well as the necessity to adapt to new developments and manage change, and an enhanced cooperation between schools and enterprise with a view to provide a better match between needs and skills & competences.

III. C - ASSESSMENT OF THE SUGAR DIALOGUE BY THE EUROPEAN COMMISSION

Court of Auditors

As mentioned in Part II of the report on management of restructuring, in its reply to the Court of Auditors, the Commission acknowledges the role of the European social partners in the management of restructuring: ""Furthermore the Commission hosts the sectoral social dialogue committee for the sugar industry which comprises representatives from trade unions and sugar industries. In particular this committee has agreed a Code of Conduct of the European Sugar Industry on Corporate social responsibility which has been extensively applied in the context of the reform" (Commission Reply § 104).

Publication on the recent developments of the European Sectoral Social Dialogue

In the 2010 publication entitled "European Sectoral Social Dialogue – Recent Developments" circulated at the end of September, the Commission described the functioning of the European Social Dialogue and presented detailed notes on each of the 40 existing sectoral social dialogue committees.

The sectoral dialogue in the sugar industry is very well described (p. 76-77). Regarding Enlargement, the conference of Bratislava in 2002 aiming at "laying the foundations for an enlarged Europe, capable of combining a specific social model with economic competitiveness" is duly mentioned. This objective is included in Standard 4 of the CSR Code of Conduct, which served as a benchmarking for the new countries. These countries could gradually comply with the different standards of the Code without difficulty and are now acting beyond these standards.

On restructuring the different actions taken by the social partners are recalled: the 2005 Conference with CIBE and EFFAT aiming at anticipating the sugar reform, the creation of the Code of Conduct, the employability project. The CSR Code and the implementation reports are well described. The official representativeness of the European sugar dialogue is fully confirmed entailing the right of consultation and if it would deemed necessary for the sector, negotiation, as provided in the Lisbon Treaty.

[27] The Bruges Communiqué on Enhanced Cooperation in Vocational Education and Training for the period 2011-2020 – IP/10/1673 of 7.12.2010

Commission Staff Working Document on the functioning and potential
<u>of the European sectoral social dialogue (ESSD)</u>

On 23 July the Commission published a "Staff Working Document on the functioning and potential of the ESSD". This document takes stock of the main achievements of the sectoral dialogue since 1998, when the official social dialogue committees were created[28]. The CSR Code of the sugar industry and the implementation reports are positively mentioned.

This document also confirms the role of the social partners according to the new Lisbon Treaty. Articles 154 and 155 of the Treaty on the Functioning of the European Union (TFEU) replace the articles 138 & 139 of the Nice Treaty, providing for the consultation and capacity of negotiation of the social partners at European level. This document clearly invites the social partners to get more involved in the European policy-making process, in particular by replying to the specific Commission consultations and to the impact assessment of Commission initiatives. The next consultations expected are on the review of the "working time directive" and on "restructuring". <u>Regarding the impact assessment procedure, CEFS and EFFAT are used to concerting each other on the topics having an impact for the sugar industry.</u> Such impact assessments cover all EU policies, regarding for instance external trade, development or other policies which might have an economic and social impact. On "Mercosur" or on "the Future of Trade", EFFAT and CEFS replied to the Commission separately, but using the same argumentation regarding sugar.

It should be noted that the new Lisbon Treaty goes beyond the previous Treaty, in particular through its Article 9 stating that "in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health". This means again that from now on an impact assessment should systematically take place on the social consequences of the different policies conducted by the EU. This was acknowledged by the Council on Employment and Social Policy which took place on 6th December.

In the frame of the EU 2020 Strategy, the different initiatives linked to it, and the new TFEU Article 9, the social partners are prepared to get more and more involved in the different procedures of consultation of the Commission. They also ask the Commission to reflect more in depth on the implementation of the Article 9 TFEU. A broadening of the impact assessment procedure is a good first step, but this does not seem enough to make really sure that the social dimension will be systematically taken into account in all future EU initiative.

[28] Commission Decision 98/500/EC establishing the legal framework for sectoral dialogue committees – OJ L 225 of 12.8.1998

III – D - ISO 26 000 Guidance : Update of the Code of Conduct

The International Organization for Standardization (ISO) recently published the International Standard ISO 26 000 which is a "Guidance on social responsibility", not for use as a certification standard, but as a voluntary guidance with a progressive approach. It is intended to value, not to replace, existing agreements. It provides definition of terms linked to social responsibility, core subjects, underlying principles, guidance on integrating socially responsible behavior throughout organizations as well as on practices. The sugar CSR Code of Conduct covers a large part of the ISO 26 000 core topics. It might however be useful to examine more in depth whether some technical adjustments or updates could be introduced in order to meet the ISO Guidance as far as possible. This might also be an opportunity to mention the developments intervened since the signature of the Code of Conduct in 2003.

Regarding environmental sustainability for instance, a reference could be made to the brochure published in May 2010, drawn up by CEFS and CIBE experts, regularly updated. The question of "consumers", "societal impact" could be better highlighted in the Introduction of the Code. Regarding "Human Rights" the references to EU directives should be checked and updated if necessary. The works developed on employability (standards 2 & 7) and/or enlargement (Standard 4) should be mentioned, even by the way of footnotes, as well as the other works developed in the frame of "Restructuring" (for instance "Guide on access to restructuring funds"). The numerous examples of good practice developed since 2003 on core standards like vocational training, health and safety, restructuring, might be better enhanced. **The social partners will jointly examine this matter and propose a technical update of the Code of Conduct to the Commission as soon as possible.**

III. E. – PLENARY SESSION OF 28.2.2011 & WORK PROGRAMME FOR 2011

At the plenary session of the sectoral social dialogue committee for the sugar sector planned for Monday 28 February 2011, the developments of the new sugar regime as a result of the reform of the sugar regime will be set out, along with their social impact. The main economic challenges at present will be addressed (climate change and the ETS, trade negotiations in course and rules of origin). The working programme for 2011 will be proposed and validated (see Annex 4).

CONCLUSION OF PART III OF THE REPORT

The social partners in the sugar industry have been <u>widely involved on the implementation of the Code of Conduct in 2010,</u> in particular regarding health & safety, vocational training, restructuring. They have developed an interactive tool aiming at improving the <u>employability,</u> a topic which proves to be in the center of the EU 2020 Strategy and the recent Commission initiatives. <u>The image of the European social dialogue is positively reported</u> in different recent publications of the Commission, as the publication on "ESSD - Recent Developments". <u>In 2011 the social partners decide to complement and adjust the CSR Code of Conduct in the sugar industry to fully cope with the recent ISO 26 000 Guidance on social responsibility.</u>

IV - SUMMARY OF THE 2010 REPORT AND FINAL CONCLUSIONS

Already having brought about a reduction of 35% in production, implementation of the reform of the sugar regime which began in 2006 will be completed by 2011. The Commission has confirmed that with a rate of reduction in production attaining 96.6% of the initial objective, it considers the reform to be successfully completed.

From 2005/06 to 2010/11, the reform resulted in the closure of about 80 factories and the loss of around 20,000 direct jobs during the campaign. As one direct job generates five indirect full-time or part-time jobs, some 120,000 direct and indirect jobs were affected. All the regions of the European Union were concerned: Northern, Southern, Central and Eastern Europe, and particularly rural areas where employment possibilities are limited. Five sugar-producing countries gave up production completely.

For the social partners, restructuring might not have come to an end yet. To remain competitive, the industry will have to continue adapting. A number of companies have already envisaged changing their business orientation. The social partners have asked the Commission that the amounts still available in the restructuring fund be appropriated to the financing of industrial restructuring measures still in course. As indicated in the report, they have been partly heeded, but not totally.

The reform has also given rise to a fundamental shift in the balance on the European sugar market. In particular, it has determined a new balance between EU production and preferential imports from the ACP countries and the LDCs, now completely liberalised. It is thus making a real contribution to the development as total EU imports have considerably increased, rising from 2 million tonnes in 2005 to 3.1 in 2010.

As a result of the reform, from being a net leading exporter, the European Union has become a net importer. A new structural balance between domestic sugar consumption and preferential imports has been reached. About 85 % of total consumption is covered – and should remain -by domestic production. The European sugar industry has always proved to be a reliable supplier to consumers, contributing therefore to the food security objectives set up by the EU. The stability of supply remains a key priority.

To this end, balanced and reactive management of imports of sugar and products containing sugar continue to be crucial to guarantee the success of the reform of the sugar regime. In case of tight supply of the EU market, priority should in particular be given to EU market instruments over the granting of additional TRQs.

The concessions granted to the ACP/EPA countries, along with any further additional concession granted in the bilateral, regional or multilateral negotiation, could reach limits which no longer allow this sector to remain viable. It is not acceptable that the European sugar industry can be considered as the "adjustment factor" to enable the EU to respond to fluctuating or increasing imports, especially in the present context of high world price volatility. The current situation where the sugar industry has to face restrictions on exports while new additional duty free imports are continuously imposed is not sustainable in the long term.

Furthermore, within the context of the climate and energy policy currently under discussion, the social partners emphasise the need to give proper consideration to the specific characteristics of the sugar sector in order to keep the potentially considerable economic and social impact of the decisions to be taken within limits that can be managed by the industry

The social partners have constantly underlined over the years the lack of coherence between the Commission's agricultural policy and its external policies, such as Trade or Development. The decisions that are yet to be taken in this field – for instance regarding Mercosur - will all constitute crucial stages for the future of the sugar industry. Any additional imports have an impact on domestic production capacities and therefore on employment. The reduction in quotas of 100,000 t represents on average the closure of one factory, which is an irreversible process. Once closed, a factory cannot be reopened.

In this particularly sensitive context, and within the framework of their European mandate, the social partners are making every effort to favour, in an atmosphere of trust, both mutual understanding and constructive high-quality communications. They are trying to make progress and concert each other on any question of joint interest, to monitor the measures taken in the different countries and to establish a useful exchange of information and reflections for the profession as a whole. They are regularly developing practical web based tools with a view to facilitate the need of constant adaptation to change. In particular, with the financial support of DG Employment, they have recently developed an interactive tool aimed at improving employability in the sugar sector in order to support all employees in their efforts to retain their ability to carry out a job throughout their lives, thus replacing the notion of lifelong training by that of lifelong employability. This implies a high level of social responsibility on the part of both the company and the employee.

As acknowledged by the Commission in its reply to the report of the Court of Auditors on sugar, companies have thoroughly observed the Code of Conduct on social responsibility signed in 2003. They have endeavoured as far as possible to support employees losing their jobs, far beyond their legal obligations. It should be noted that the loss of almost the half of direct jobs in four years has given rise to virtually no social conflicts.

Knowing that the reform of the sugar regime was largely due to a political choice by the Union and the Member States within the context of globalisation, the social partners recall once again to policy-makers that it is essential to do everything possible to ensure the success of the sugar reform by giving rise to a sustainable industry. Ensuring consistency between external policies and the agricultural policy is in particular crucial. On this depends in time the survival of the European sugar industry and the ability of its companies to remain profitable and competitive on the market, whilst continuing to offer their employees prospects of employment and employability, a key topic in the frame of the EU 2020 strategy.

ANNEX 1

Open letter to decision makers of the European Institutions

Representing all sugar producers in the EU and Switzerland since 1953

9 November 2010

ADDRESS TO THE DECISION-MAKERS OF THE EUROPEAN INSTITUTIONS

Consistent Trade and Import Policies for the European Sugar Sector

As part of civil society and as responsible economic players, the European Association of Sugar Manufacturers (CEFS)[1] would like to explain why implementing a consistent trade policy[2] is an essential prerequisite for achieving sustainability in the EU and meeting the objectives of EUROPE 2020[3]. Nowhere is this more needed than with international trade and agriculture, particularly regarding the EU sugar sector.

As you're likely aware, the EU sugar reform initiated in 2006 has had a substantial impact on the sector. In addition to absorbing large price cuts, the sugar industry has had to restructure in order to improve efficiency, resulting in the closure of 60% of its factories. This has transformed the EU from the world's second largest exporter of sugar to its second largest importer in just three years. By limiting EU sugar production to a level well below its domestic consumption, the EU has preserved the interests of its traditional suppliers, in particular the African, Caribbean and Pacific (ACP) countries. It has also offered duty free market access to sugar from the Least Developed Countries (LDCs).

Paradoxically, as the world sugar industry continues to develop, the European sugar industry is facing an unsustainable situation: on the one hand, it faces restrictions on its exports, while on the other it sees new additional duty free imports[4] being imposed. Indeed, as it stands today, additional imports, via bilateral or multilateral trade agreements could irreparably damage the EU sugar industry and its traditional suppliers as the European market is already fully subscribed. Continuing along this line would:

- **Undermine the EU's policy goals to improve EU food security** by introducing instability of supply to the EU domestic market through the volatility of world sugar prices. This is exacerbated by the volatility of the value of currencies, to the disadvantage of European consumers. The EU industry has proven to be an

[1] Comité Européen des Fabricants de Sucre.

[2] The need for consistency is also clearly expressed by many other stakeholders in the final report on the public consultation on the future EU trade policy – overview of contributions, published in September 2010 on the Commission web site.

[3] « EUROPE 2020 » is the EU strategy for jobs and smart, sustainable and inclusive growth. It constitutes a coherent framework for the Union to mobilise all of its instruments and policies and for Member States to take enhanced coordinated action.

[4] See recent agreement on Central America and the Andean Community. Other negotiations are ongoing: MERCOSUR, Ukraine, India, Singapore, WTO-Doha Round were additional concessions on sugar are discussed.

extremely reliable source of supply over a long period of time. As a result, European consumers have been buffered from the damaging effects of world price volatility.

- **Encourage some EU trading partners to use "Swaps"** i.e. exporting their domestic production to the EU whilst importing, in return, the same quantities from non-EU countries so as to meet their domestic needs. This operation does not bring any additional value added to local agriculture in developing countries but transfers wealth to the benefit of big international trading companies.
- **Harm the environment**, by encouraging long distance transport of heavy goods whose traceability and sustainability cannot be guaranteed. By contrast, EU sugar supplies are highly traceable and located 100 times closer than the imports under consideration.
- **Endanger the further development of a competitive European beet sugar industry** by forcing a new wave of factory closures and job losses, which were not anticipated or planned at the time of the 2006 reform.
- **Undermine the longstanding ACP preferences** incorporated into the Economic Partnership Agreements, and **negate the benefits awarded to LDCs** through the Everything But Arms (EBA) initiative. These developing countries are important and valued suppliers to the EU sugar market.

For all these reasons, CEFS urges that the EU's trade policy, particularly with respect to imports, be consistent with its agreed CAP commitments in the sugar sector. In this context, we advocate that the European market continues to be supplied by a stable domestic production covering no less than 85%[5] of EU consumption, with the balance being supplied by ACP and LDC developing countries and traditional suppliers. We also ask that the current constraints on exports be lifted, allowing the EU to export freely in common with all other global players.

M. C. Ribera

Marie-Christine RIBERA,
CEFS Director General

Johann MARIHART,
CEFS President

ABOUT CEFS

CEFS, founded in 1953, represents all European beet sugar manufacturers and cane sugar refiners, covering sugar production in 20 EU countries (Austria, Bulgaria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, Portugal, Romania, the Netherlands, Poland, Slovakia, Spain, Sweden and the United Kingdom) plus Switzerland.

For further information, please visit our website www.cefs.org

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[5] Source: Reply of the Commission to the special report « Has the reform of the sugar market achieved its main objectives? » SEC(2010) 1016 final of 7.9.2010, point 58.

ANNEX 2

ETS benchmarking

CEFS-EFFAT-CIBE letter to Commissioner Connie Hedegaard

CEFS
COMITE EUROPEEN DES FABRICANTS DE SUCRE
182, avenue de Tervuren
B – 1150 – Bruxelles
Tel. 322/762 07 60

CIBE
INTERNATIONALCONFEDERATION OF EUROPEAN BEET GROWERS
Boulevard Anspach 111
B – 1000 Bruxelles
Tel. 322/504 60 91

EFFAT
EUROPEAN FEDERATION OF FOOD, AGRICULTURE AND TOURISM
38, rue Fossé-aux-Loups
B – 1000 – Bruxelles
Tel. 322/218 77 30

Brussels, 7 June 2010

Mrs Connie Hedegaard
Commissioner, Climate Action
European Commission
Rue de la Loi, 200
1049 Brussels

Dear Commissioner,

Re. ETS benchmarking and the need to keep jobs in support of the economy of rural areas while fostering the environment.

The new European Emissions Trading System (ETS), taking shape today but which will apply from 2013 and beyond 2020, could endanger rural development and economic activities in rural areas if the specificities of agro-industry sectors like the beet and sugar sector are not taken into account. CIBE, EFFAT and CEFS represent, respectively the European beet growers, Food & Agriculture Trade Unions and sugar beet processors.

In 2009, the beet sugar sector was classified by the EU as an "energy-intensive sector at risk of carbon leakage". In practice, that means that the sector is highly sensitive, on the one hand, to the additional costs linked to the future price of CO_2 in the EU and, on the other hand, to the loss of international competitiveness in relation to industries, in third countries, not supporting similar CO_2 costs. Carbon leakage sectors are deemed to receive 100% of their *benchmarked* emissions for free during the transition period 2013-2020.

Despite the above classification, the Commission, led by DG Climate, is in the process of developing a so-called 'benchmarking' model which may very seriously reduce the amount of free emission rights ('allowances') that our sector could receive during the transitional period (2013-2020). According to a benchmarking study of the beet sugar sector completed in May 2010 by an external consultant (Entec) this may result in the beet sugar sector receiving roughly 50% of its *actual* emissions during the transition period and thus being obliged to cover that huge gap by buying allowances on the ETS carbon market. We believe this will cause an unreasonable damage not only to the sector and EU farmers but also to employment and economic development of EU rural areas, where our factories and farms are based. Ultimately, this may lead also to lower the sustainability of the sector.

The EU-led 'sugar reform' and the role of the sector in rural areas

Following the EU decision to thoroughly modify its sugar market (Council Regulation 318/06), the European beet and sugar sector has undergone a very deep reform which is just now being finalized. As a result, the sector has reacted responsibly to the necessity of improving its competitiveness and sustainability[29]. Nonetheless, the sugar market reform has led to the closure of 44% of the EU beet sugar factories between 2005 and 2009. The EU has also turned from net sugar exporter to net importer in a very short period of time.

Beet sugar factories are bound to rural areas, as they must be near the fields from which they obtain its main raw material, sugar beet. Despite the severity of the sugar reform in terms of job losses (-41% since campaign 2004/05), both beet growing and sugar beet processing remain an important economic activity in rural areas where they provide employment (direct and indirect, full or partial) to 180.000 industry workers and support the activity of more

[29] For more details, please consult our new CIBE-CEFS report on environmental sustainability http://www.comitesucre.org/userfiles/file/Brochure%20CIBE-CEFS%20Final_05_05_2010.pdf

than 170.000 farms. The sector therefore remains fully committed to its long-term sustainability in the social, economic and environmental areas.

Keeping jobs and supporting the economy of rural areas while fostering the environment should be compatible with any ETS benchmarking model chosen by the EC.

The benchmarking model currently supported by DG Climate makes no difference regarding the relative access of factories to low-carbon fuels such as natural gaz and sets a reference value which is roughly equivalent to the one of natural gaz. For factories running on higher-carbon fuels such as coal or oil this means substantially less allowances during the transitional period. Sugar beet factories are bound to rural areas and that means, for factories in many countries, that there is low or no access to gaz pipelines. <u>For those factories, we claim and request that a different fuel benchmark, based on their relative access to the different fuels, should be possible.</u>

Our sector, like several other manufacturing sectors, is also concerned by the fact that factories may be considered as ‘electricity generators’ because they produce their own electricity (via ‘co-generation’, also called ‘CHP’, Combined Heat and Power). Under the new ETS, ‘electricity generators’ are treated in the same way as the power sector (which is deemed to be able to pass on to consumers all of its carbon costs), and therefore would receive no free allocations. In the case of the beet processing sector, producing its own electricity in an especially designed plant is not an option but an obligation due to its location in rural areas with low-level electricity infrastructure. By doing so, many CO2 emissions are saved compared to equivalent supply from the public electricity grid. <u>We therefore claim that DG Climate can and should clarify that, on that point, the ETS Directive does not prevent the manufacturing sector from receiving allowances also for the electricity self-produced and self-consumed on site via highly efficient co-generation.</u>

Finally, by being close to the beet fields, many transport emissions are saved by beet processing factories as roughly 100 Million tonnes of beets are transported in the EU every year! Moreover, sugar beet and beet sugar remain locally produced commodities which do not have to travel far to reach the EU consumers and to supply other EU industries such as the food & drinks, chemical and pharmaceutical industries. All in all, we claim that penalizing beet sugar factories due to their isolation, low access to gas pipelines and self-production of electricity, means not only penalizing the sector but also damaging the development of economic activities in rural areas and ultimately penalizing the environment itself by encouraging the sector’s carbon leakage in favor of competing production in third countries.

We remain at your disposal should you or your services require any clarification or further details on the above. We also look forward to continuing the good cooperation with the services of the different DGs with regard to finding solutions for some technical and yet sensitive matters which concern specifically the beet sugar sector and strongly recall the need for coherence between the various EU policy decisions, notably on CAP and on Climate.

Yours sincerely,

Harald WIEDENHOFER	Jos VAN CAMPEN	Johann MARIHART
Secretary General, EFFAT	President of CIBE	President of CEFS

Cc: Ms Elena ESPINOSA, President of the Council of the EU – Agriculture and Fisheries

Mr Antonio TAJANI, Mr Dacian CIOLOS, Mr Günther OETTINGER, Commissioners

Mr Paolo de CASTRO, Chairman COMAGRI, Mr Jo LEINEN, Chairman ENVI Cttee, European Parliament

ANNEX 3

Example of good practice - Slovakia

Place and date	Place: Slovakia Company: Slovenske cukrovary, s.r.o. (Member of Agrana Group) Date: 2009-2010
Subject	**Cancer prevention medical check-up**
Context	In Slovakia, the cancer incidence is higher than the EU 27 average and much higher than the worldwide average (see Appendix 1). The average age of employees in sugar industry is high (over 45 years). Within the last 3 years, 6 employees of Slovenske cukrovary were affected by cancer and one employee has died. The aim of the employer was to take social responsibility and help to prevent the cancer. The objective was to prepare for the employees an above standard health check-up with a special focus on cancer prevention.
Project	The above-standard medical check-up with 5 oncomarkers has been prepared. The name of the programme is OncoCare. It was necessary to make the employees aware of the programme in the company magazine, on notice boards and in person. A schedule of participation at the check-ups for the first year was set up. Periodicity and general conditions for realization of a preventive medical check-up: • every employee can conduct a health check once per 3 years, • participation at the preventive medical check-up is voluntary, • elderly employees and the employees who have never undergone any above-standard medical check-up will be preferred. The employee may undergo a preventive medical check-up if: • their contractual labour relation is for unlimited time period, • has worked for the company at least for 3 years, • they are not in the notice period in the year of such medical check-up. Obligations of the employee who undergoes the preventive medical check-up: • to keep the date and hour of the check-up, • in case of employee´s absence in the given date and hour, it is employee´s obligation to find a replacement (another employee) in cooperation with the HR department, otherwise the employee may bear the price for the check-up, • preventive medical check-ups are liable to tax as a non-financial income for the employee.
Result	Since Slovenske cukrovary have implemented the programme in 2009, in total 34 employees participated in the medical check-ups. In 2 cases the early phase of cancer was diagnosed. In some other cases other diseases were diagnosed.
Resources allocated	In Slovakia, the employer is obliged to put 1.5 % of payroll expenses to the Social Fund of the company, from which this programme after mutual agreement with the trade unions has been funded. Preparation, communication and organizational issues of the programme were executed by the Human resources department.
Contact	For more information contact: Dr. Andrej Köböl Phone No.: 0421 317 88 41 44 Fax No.: 0421 317 88 41 13 E-mail: andrej.koeboel@agrana.com

Appendix

Cancer Incidence, Mortality and Prevalence Worldwide

Version 1.0. IARC CancerBase No.5. Lyon, IARCPress, 2001.

Organ	Gender	World		Developing countries		Well-developed countries		Eastern Europe		Slovak Republic	
		Inc.	Mort	Inc.	Mort.	Inc.	Mort.	Inc.	Mort.	Inc.	Mort.
Lung cancer	M	34,92	31,43	24,79	22,02	55,62	50,50	69,70	63,12	68,49	60,66
	F	11,05	9,53	8,44	7,40	15,32	13,14	8,77	7,79	8,99	7,75
Colorectal cancer	M	19,11	9,78	9,91	5,75	37,30	17,38	32,88	18,12	50,58	28,04
	F	14,44	7,58	7,88	4,53	25,87	12,27	21,50	12,39	26,55	16,10
Pancreatic cancer	M	21,46	15,62	19,87	15,32	24,63	16,16	34,05	28,03	20,34	16,87
	F	10,38	7,81	9,97	7,20	10,96	7,73	14,54	12,17	8,89	7,31
Prostate cancer	M	21,23	7,95	7,71	4,61	46,65	13,70	19,39	8,53	28,65	14,30
Endometrial cancer	F	16,12	7,99	12,73	9,79	11,35	4,08	16,81	6,20	16,59	5,40
Breast cancer	F	35,66	18,51	23,07	9,12	63,12	18,61	49,43	17,24	45,61	18,40

Source: www.europacolon.sk

ANNEX 4

Work Programme of the SSDC sugar for 2011

WORK PROGRAMME
OF THE SUGAR SECTORAL SOCIAL DIALOGUE COMMITTEE FOR 2011

Reform of the sugar regime and social consequences

The social Partners will continue to follow up the developments of the new sugar regime as a result of the sugar reform (2006-2009). This implies mutual work in relation to the challenges arising from the initiatives taken by the European institutions as well as mutual information on the restructuring trends, good examples and obstacles. They will also follow with attention the public debate on the Common Agricultural Policy post 2013 and react if need be.

Corporate Social responsibility in the European sugar industry

The eighth implementation report of the corporate social responsibility Code of Conduct for the year 2010 is planned to be presented at the plenary session of the sugar sectoral committee on Monday 28 February 2011:

- political and economic context;
- corporate management of the restructuring and economic crisis
- Code of Conduct implementation.

All the elements of the report as well as the conclusions of the joint plenary meeting will be introduced on the website www.eurosugar.org after the meeting.

In addition, after publication of the new ISO 26 000 certification providing guidelines for social responsibility, the social partners will reflect on a possible adjustment of the Code of Conduct in the sugar industry.

Employability in the European sugar industry

The social partners will gradually report on the first developments linked to employability in the sugar industry, after the recent introduction of the web based tool on the joint website www.eurosugar.org. At the plenary meeting of February 2011, they will present the new versions of this interactive tool into Italian, Polish and Spanish, in addition to the three existing ones (English, French, German). These new versions will be placed on the joint website.

Major external/internal challenges facing the European sugar industry

The social partners will continue to assess the developments related to the international trade commitments of the European Union which could influence the European sugar industry competitiveness, as well as the developments related to any other EU policy which could have a social impact. They will produce joint positions, joint letters, concerted replies to Commission impact assessments, or conduct concerted action as needed (Bilateral, regional, multilateral agreements, revision of preferential rules of origin, imports of sugar and sugar mixings from ACP and LDCs and their management, non quota exports, EU Emissions Trading System, Reach Regulation implications,...).

Any other business

Notwithstanding the commitment of CEFS and EFFAT to have this year again a focus on the priorities of their work programme, they agree that unforeseen topical issues may request their collaboration.