CORPORATE SOCIAL RESPONSIBILITY

CODE OF CONDUCT OF THE EUROPEAN SUGAR INDUSTRY

Tenth implementation report (year 2012)

28.2.2013

FINAL DRAFT

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LIST OF ACRONYMS AND ABBREVIATIONS EMPLOYED IN THIS REPORT

ACP Asia Carebbean Pacific

CAP Common Agriculture Policy

CEFS Comité Européen des Fabricants de Sucre

CIBE International Confederation of International Beet Growers

CMO Common Market Organization

CSR Corporate Social Responsibility

DG Directorate General

EFFAT European Federation of Food Agriculture and Tourism Unions

EU European Union

ILO International Labour Organization

IUF International Union of Foodworkers

LDC Least Developed Countries

MEP Member of the European Parliament

SD Social Dialogue

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 tenth implementation report, covering the year 2012, and will be presented at the plenary session of the sectoral committee for the sugar sector on 28 February 2013. These different reports can be accessed on the joint site www.eurosugar.org.

I – ECONOMIC AND POLITICAL CONTEXT

I.A – CURRENT SUGAR REGIME & NEW CAP PROPOSALS AFTER 2013

Support for the current management of the Single CMO for sugar

The sugar industry is a key driver of economic activity in the EU, in particular in rural areas. Beet sugar is produced in 18 Member States by 106 factories, supporting 160,000 beet growers and 180,000 direct and indirect jobs. The sector is the driver behind a large number of European employers ranging from research institutes to machinery manufacturers. It invests in employee skills and training, as well as research and development, and has a particularly positive impact on rural communities where there are often few alternatives for decent[1] employment. It is also a sector with a long-standing tradition of EU social dialogue with remarkable achievements.

Moreover, the sector is making considerable investments to increase productivity. Industry is working with growers to make improvements on farms and in factories. It has seen 16% more sugar being produced per hectare, 17% longer campaigns[2] and 15% bigger factory capacity[3]. EU sugar also features a significant network of sugar beet research and

[1] Definition of Decent Work (ILO): ‘Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men’.

[2] 5 year average before and after 2006

[3] 2010/11 versus 2005/06

development (R&D) activities, with research centres in 13 EU countries employing over 150 highly-skilled food and agriculture scientists. Given the high-capital intensity of the industry, combined with the need for a long-term business model, the current Single CMO for sugar provides the sector with the necessary stability and predictability to continue in its efforts to become more efficient and competitive, making a significant contribution to the European economy.

The current Single CMO for sugar works. At a time of considerable economic and social uncertainty, it provides decent employment, while the exemplary contractual framework ensures a fair standard of living for the agricultural community. It also ensures a reliable source of stable supply, acting as a buffer against excessive world market volatility.

With regards to the management of the Single CMO for sugar, it is the Commission's role to ensure that there is sufficient sugar available and it has several instruments with which to do so. Where the Commission judged that there was a situation of deficit in the 2010/11 and 2011/12 marketing years, it released out-of-quota sugar onto the market and allowed additional imports at a reduced customs duty. Equally, there is a withdrawal mechanism to remedy situations of surplus. This demonstrates that the current system is flexible and the Commission is able to respond to market requirements.

Nonetheless, given that the market is balanced at the moment, the sugar partners do not believe that extraordinary measures were necessary during the 2011/12 and 2012/13 marketing years. While, if there were a shortfall, the release of out-of-quota sugar has proved an extremely reliable and immediately available source of sugar, as was the case in the 2010/11 and 2011/12 marketing years, and should be given priority over additional imports from third countries.

CEFS and EFFAT continue to be available for consultation and advice to the Commission and its management of the sugar sector in a consistent and responsible manner. This is all the more important with the reform of the Single CMO for sugar under negotiation.

Reform of the Single CMO for sugar (CAP towards 2020)

The Commission came forward with its legislative proposals on the reform of the Common Agricultural Policy (CAP), including the Single CMO for sugar, in October 2011. The Commission proposes the end of the current sugar regime, including the quotas and the minimum beet price, at the end of the 2014/15 marketing year.

Over 2012, the sugar partners have worked together to promote their joint position, the extension of the current Single CMO for sugar until 2020. This will enable the sector to continue to optimise its competitiveness and efficiency; to counter the instability of the world market, thus securing stable supply; and to provide the Least Developed Countries (LDC) and African, Caribbean and Pacific (ACP) countries with more time to invest in their infrastructure. This is outlined in “CEFS position on the EU sugar regime after 2014/15” issued in October 2011 and available online on the ‘Eurosugar’ website at http://www.eurosugar.org/pdf/cap2020.pdf.

In line with Social Partners’ work program for 2012, on 6 November EFFAT and CEFS – together with the EU beet farmers (CIBE) and the African, Caribbean and Pacific (ACP) held a public debate at the EU Parliament. More information on this joint initiative conducted in 2012 is provided under section III of this report.

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

In 2012 the EU has concluded negotiations with Colombia Peru and Central America and has increased the number of bilateral trade deals under negotiation. In addition the EU is also considering opening negotiations with other countries. The outcome of these negotiations could bring damaging consequences for the employment of the EU sugar sector.

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

The flow of sugar imports into the European Union from developing countries fall under the preferred access schemes EPA (Economic Partnership Agreements)[4] and EBA (Everything But Arms). EBA gives the 49 LDCs[5] countries duty free – quota free access to the EU sugar market. EPA governs relations between the EU and the ACP countries and sets out the general agreements concluded for sugar and products containing sugar.

In 2011/12 the level of imports from the ACP/LDC countries was lower than expected. The expansion of sugar production in the privileged EBA and EPA countries happened at a much slower pace than expected. Moreover, both the EU and ACP/LDC countries are committed to a more competitive sugar sector. They are making considerable investments and improvements to increase their efficiency and according to the official estimates the EU’s duty-free access schemes may rise by a cumulative 450, 000 tonnes in 2012/13. For these reason it is important that the European market remain stable to maintain a viable market for suppliers, particularly those in ACP/LDC countries. This is already being undermined through further concessions to third countries in bilateral free trade agreements. The commission should not allow additional duty free imports because it can endanger the market and undermine the stability and the exports’ capacity of the ACP/LDC sugar’s industry.

In the context of the Southern African Development Community (SADC) – EPA, South Africa has requested access to the EU sugar market (among other issues). The main argument used is that ACP/LDCs have been exporting less than foreseen and South Africa could fill this gap.

[4] (EC) No 1528/2007
[5] LDCs: Least Developed Countries

Central America, Colombia, Peru

The trade agreements with Central America and Colombia/Peru concluded by the Commission and approved by the Parliament and the Council in 2012, will enter into force at the beginning of 2013. To enter into force the agreements need to be ratified by Colombia/Peru and Central America according to their internal procedures. A zero duty tariff rate quota was granted for 276 000 tonnes (sugar and sugar products) plus an 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. Once the concessions will enter into force, they will already change the current supply pattern of the EU sugar market and considerably increase its supply. Therefore social partners ask that the EU acts in coherence with the current sugar reform and takes into account future multilateral negotiations.

Canada

The negotiations with Canada are in the final stage. The Commission should grant two quota origin/derogations to Canada with relaxed rules of origin on high sugar content products (provided that sugar is refined in Canada), chocolate and confectionary (for which Canada can use sugar from any origin). Rules of origin are of particular importance in the context of ongoing FTA and regional negotiations. The rules applied in trade agreements until 2011 were rather safe. A new situation occurred with the negotiation in course with Canada, which is requesting more flexibility.

The EU should grant to Canada a quota on high sugar contact products, providing that sugar is refined in Canada. The EU rule prevents refining from conferring the origin, which is essential. In actual fact these refineries generally handle sugar from the world market. The quantities involved are considerable. If refining did confer the origin, the European market could be submerged by imports that would be impossible to manage. In fact refining should never confer the origin, which is also the EC position in the context of non-preferential rules.
Canada in particular refers to the GSP Regulation on rules of origin enforced on 1.1.2011[6], which was specifically designed for developing countries and not for use with developed countries. They asked to increase the authorized level of non-originating sugar in the final product for a number of sugar products[7]. GSP already authorized until 40 % of non-originating sugar, i.e. nearly half of the product. They are asking the same level and for some products an unlimited level. Even if such a request would be accepted on an exceptional basis for political reasons and because Canada is a small sugar producer, the risk is that this outcome could create a precedent for other negotiations. In the same way, sugar users are claiming a relaxation of rules of origin for some sugar products. They are asking that the operator can choose to retain the threshold either in weight or in value. The threshold for sugar must be calculated only in weight**.** A weight basis is predictable, it does not depend on price fluctuations of raw materials or exchange rates and it is easy to control. This proposal is totally unacceptable because it is going backwards to a system (ex-works price of the product) which has just been changed to weight.

[6] Regulation EU/1063/2010 – OJ L 307/1 of 23.11.2010

[7] For instance : Chocolate and other food preparations containing cocoa (heading 1806) – Sugar confectionery (1704) – Pastry, cakes, biscuits and other baker's wares (1905)

b) Free Trade Agreements : main ongoing negotiations

The EU is negotiating FTAs with all parts of the world entailing the risk of further concessions on sugar, unbalancing the EU sugar market and causing a shrinking of EU production with consequences on European employment. The negotiations EU-Ukraine have been concluded. The EU agreed an additional import Tariff Rate Quotas (TRQ) on the EU sugar market of 30.000 tons. The EU will have generally the same access to the Ukrainian market. The agreement could be signed by November 2013 if the Ukrainian authorities demonstrate significant progress in addressing the problems outlined by the European Union. Discussions with India are relativly advanced. At the moment the negotiations are not progressing due to political issues but the Commission will grant a TRQ to India on molasses and a TRQ on sugar *plus* high sugar content products. In addition the EU launched also negotiations with Georgia, Moldova and Armenia that could be concluded by 2013. The Commission will offer other concessions on sugar and sugar products to those countries. The Commission already granted to Moldova a TRQ of 34,000 tonnes of white sugar and this can increase. The quantity of 34,000 tonnes granted to Moldova should not be increased and effective and strict Rules of Origin for sugar should be maintained. Negotiation with US could also be launched in the beginning of 2013.

Vietnam, Singapore and Malaysia

Negotiations with Singapore have been concluded and negotiations with Vietnam and Malaysia are under discussion. In addition, the Commission intends to launch negotiations also with Thailand which is one of the world's largest sugar producers. No concession on sugar and sugar products should be made and effective and strict rules of origin need to be maintained. Vietnam, Malaysia and Singapore are part of the 10 members of the Association of South East Nations (ASEAN) as well as Thailand second largest sugar exporter worldwide. The objective of the ASEAN is to establish a single market for goods. Tariffs on intra-ASEAN goods shall be eliminated with some exceptions for sensitive products. It is therefore crucial for the European sugar industry to maintain effective and strict rules of origin for sugar and products with high sugar content and that no circumvention of rules of origin takes place in these regions. The rules of origin currently applying in the Generalised System of Preferences must be carried on in the bilateral FTA with every single ASEAN countries. The currently GSP does not allow the regional cumulation of origin in the ASEAN-Group for sensitive products, included sugar and products with high sugar content. If the EU is going to propose regional cumulation in the FTA, sugar as well as products with high sugar content must also be excluded from the regional cumulation.

Mercosur

After a stop, the EU-Mercosur free trade negotiations resumed in May 2010. At the moment even if the negotiations are slowed down because of the internal situation of the grouping (i.e. the accession of Venezuela and the suspension of Paraguay) and even if market offers have not been planned, the sugar partners have major concerns regarding this agreement with a region which comprehends Brazil, the first world sugar producer and exporter representing almost 60 % of world exports. Sugar partners requested that, **as was the case in previous negotiations, sugar and sugar products remain completely excluded from any concession and no TRQ should be granted**.

Generalized System of Preferences (GSP)

In 2012 the new GSP Regulation was been published in the Official Journal and it is expected to enter into force on 1st January 2014. The new scheme will be reviewed after five years and will have a limited duration of 10 years. As in the current GSP, sugar (1701) is not included. As regards EBA Arrangement *(Art. 17-18 of the Commission Proposal)*, the current list of 49 LDC countries remains unchanged. Regarding sugar, imports of products under heading 1701 shall require an import license until 30th September 2015. The Commission hopes to put forward a legislative proposal to temporarily reintroduce Myanmar to the list of countries benefiting from GSP. If the Commission lifts the suspension from the GSP list, Myanmar can ask to be added to Annex I of Regulation (EC) No 828/2009 and as a result can export duty free and quota free sugar to the EU.

Paneuromed

Finally a review of the **Paneuromed** rules of origin is in course providing for an extension of the current cumulation system in Euromed countries to the Balkan countries. Since TRQs are applied to a number of Balkan countries like Serbia or Croatia, there is a risk of circumvention through the Euromed countries. The Commission rightly proposed to take the same kind of measures as in the Regulation applying to GSP countries[8]. The mixing of sugar with any material will for instance never confer the origin (minimal operation). The same is true for refining (change in 4-digit heading). The authorized level of non originating sugar is limited to 20 % in weight. These measures are helpful to limit the risk but do not directly address a possible circumvention by the way of cumulation. The sugar sector should therefore follow the development of this negotiation with much attention.

Sugar social partners already issued a joint position on EU trade policy and sugar in 2012, calling for coherence between EU trade policy and the Europe 2020 strategy, notably with regard to the objectives of decent employment, food security market stability and environmental sustainability. The full EFFAT-CEFS position on trade is available at http://www.eurosugar.org/pdf/external28022012.pdf

I.C – GREEN GROWTH AND COMPETITIVENESS
BIO-BASED ECONOMY

In early 2012 the European Commission stated in its Communication on 'Innovating for Sustainable Growth: A Bioeconomy for Europe'. that the European strategy calls for the bioeconomy as a key element for smart and green growth. Sustainable food production and agriculture are one of the pillars supporting this comprehensive and ambitious objective. Food processing specifically, will address innovation in the European food industry through the integration of advanced technologies into traditional food production. This translates into

[8] See Annex 5 - CEFS position of 18.5.2011 on the Paneuromed Agreement

the creation of new outlets for processing chains (e.g. bioplastics, biopharmaceuticals) thus increasing the competitiveness of European food chain globally.

Primary Food Processors (PFP), of which CEFS is a founding member, have published in 2012 a position paper expressing their view of the biobased economy. As the largest users of raw agricultural materials (e.g. sugar beet, domestic grains, starch potatoes…) PFP have been traditionally involved in the bioeconomy as the link between agricultural production and final products (for food and non food uses). Food and feed aside, PFP members also have been processing renewable raw materials to produce ingredients for pharmaceuticals, detergents, plastics, lubricants, paint, paper, cosmetics and other products of industrial use.

With regard to biofuels (e.g. biogas and bioethanol) many CEFS members are involved in the production of sustainable bio-fuels. Sugar beet offers an excellent methane production potential and European sugar beet ethanol achieves top results among sustainable bio-fuels in terms of overall emissions reduction compared to fossil- based fuels. Those biofuels currently represent less than 5-10% of the total sugar beet cultivation. In addition, there are virtually no land use change effects for sugar beet cultivated in the EU since all cultivation takes place in existing arable land and the total area used for beet cultivation tends to decrease as agronomic improvements (e.g. increasing yields per hectare) reduce the total amount of land needed to produce the same amounts of sugar beet. In fact, since the reform of the sector in 2006, about 700.000 hectares (about one third) have been liberated for other uses.

Therefore CEFS understands and supports the crucial role bio-based products will play in developing a sustainable and low carbon economy in Europe as underlined in the EU 2020 strategy, the Lead Market Initiative on biobased products and the EC communication and Action plan on a Bioeconomy for Europe.

The EU sugar sector efforts to increase the environmental sustainability of the food and feed chains are therefore in line with the emerging EU Bioeconomy, through continuous improvement in environmental performance and implementation of best available techniques. CEFS members:

- have invested in and use cogeneration (Combined Heat and Power) units, an environmentally friendly technology that generates lower emissions of CO_2 compared to the separate production of heat and consumption of electricity from the public grid and consume lower quantities of natural resources.[9]
- implement energy and resource efficiency where possible, through prevention of waste, re-use, recycling and recovery of valuable co-products of our processes.
- optimize their logistic operations, to lower resource use and carbon footprint.
- minimize their impact on water resources by use of process water and recycling of water.
- generate quality employment opportunities in the 'green economy'.

[9] See separate PFP position paper on cogeneration : http://www.pfp-eu.org//wp-content/uploads/March-2011-Co-generation-in-the-PFP-industry.pdf

- strive for continuous improvement in production processes and invest in knowledge, skills, research and development to reduce environmental impact.
- Contribute to the overall objective of food security and sustainable food production in the EU

CEFS and EFFAT consider that the European Commission should develop a coherent policy framework for European Bioeconomy sectors. This framework should seek a harmonised approach to policy areas such as industrial competitiveness, quality employment, energy, agriculture, food and feed, trade, environment and climate change, and research and innovation, in order to enable the EU first processing industry to serve various markets.

For CEFS and EFFAT, due to increasing exposure to international competition, a level-playing field is necessary in order to avoid that imported goods with lower environmental credentials progressively replace EU-made bio-based products. These must have a level-playing field to compete with third countries' exports, under similar sustainability requirements.

In order to attain this objective, the EU should encourage regulatory convergence with its key trading partners, so that social and environmental standards are applied in a comparable way. Until the full convergence takes place, regulation should balance the unfair competitive advantage of some imports by protecting EU bio-based production to the extent necessary to achieve such a balance.

The implementation of a successful EU Bioeconomy requires a strategic vision on the long-term productivity and viability of the European agricultural sector.

CEFS welcomes the inclusion of the bio-economy among the proposed priorities of EU CAP proposal on rural development for the 2014-2020 period. The CAP is key for the success of EU Bioeconomy as it can, in order to mitigate risks identified in the Commission Working Document[10]:

i. Boost agricultural raw material production;
ii. Promote economic development ('green growth');
iii. Enable new quality employment opportunities in rural areas;
iv. Increase the resource efficiency and mitigate climate change impacts;
v. Provide necessary means for farmers to preserve EU's long term sustainable agricultural production capability.

To achieve these objectives, CEFS has called for the introduction of concrete provisions in the new CAP (2014-2020):

1. The extension of the "**cooperation approaches"** to bioeconomy demonstrators and pilot plants to bridge the gap between research and market of bio-based products.

[10] http://ec.europa.eu/research/bioeconomy/pdf/201202_commision_staff_working.pdf

2. The possibility to provide **funds to non-agricultural activities** in rural areas as this could facilitate the creation of bio-economy clusters among primary processing factories/bio-refineries, farmers and other local stakeholders. However CEFS regrets the fact that under the current proposal, micro and small-enterprises are the only possible recipients of funding, apart from farmers.

3. Specific funding support, in connection with the **European Innovation Partnership for Agriculture**, for projects involving research and development of innovative technologies and processing techniques in order to produce sustainable bio-based products based on agricultural raw materials.

CEFS **thus support the Communication** of the European Commission on 'Innovating for Sustainable Growth: A Bioeconomy for Europe'. Indeed, the Bioeconomy has the ability to unlock the EU industrial potential by creating new innovative outlets for the primary processors and the supply chains, while at the same time contributing to the EU's environmental objectives, helping job creation in rural areas and reducing fossil fuel dependency.

Therefore, CEFS also **supports the Action Plan** establishing a regular policy dialogue with stakeholders. This would help policy-makers to understand market realities and provide long-term regulatory certainty for investments in serving various markets. The European sugar sector is interested in contributing to the **Bioeconomy Observatory** and in following the dialogue to establish a research and innovation **Private Public Partnership** for bio-industries. It is important that traditional first generation feedstock suppliers should continue to benefit from R&D funding alongside the future generation feedstock. The first transformation sectors are a necessary stepping stone to reaching second and third generations of bio-based products. Recently, CEFS together with other PFP industries prepared and submitted a joint reply to the EC consultation on the Public Private Partnership (PPP) for the biobased economy in order to raise the profile of primary food processors, such as the sugar producers, in the context of the PPP and to give the opportunity for individual companies to form such partnerships that would be suitable for their biobased products (e.g. bioethanol). CEFS also submitted an individual reply to the consultation as did individual CEFS members in an attempt to tailor the PPP further to the needs and specificities of the EU sugar industry.

Importantly, the Action Plan of the Bioeconomy should integrate the 15 priority recommendations of the **Lead Market Initiative on bio-based products** published by DG Enterprise in 2011[11]. One of these recommendations aimed at enhancing the uptake of bio-based products through EU standardisation;

Finally, the Commission Action Plan should ensure that necessary mechanisms are put in place to drive market demand for bio-based products, provide long-term regulatory certainty for investors and communicate the wide-ranging benefits of developing a

[11] http://ec.europa.eu/enterprise/policies/innovation/policy/lead-market-initiative/files/bio-based-priority-recommendations_en.pdf

European Bioeconomy to European citizens. Today, the EU already has great assets to be leading its transition to the Bioeconomy of the future.

I-D – IMPLEMENTATION OF DISCRIMINATORY FOOD TAXES IN EU MEMBER STATES

Introduction

The 2011 report recorded the ongoing trend of some EU Member States which have recently introduced specific taxes that allegedly aim to discourage the consumption of certain foods and food ingredients, such as sugar, animal fat, artificial sweeteners, sparkling drinks, fast food and pastry. EU governments have so far justified these measures as a way to curb the consumption of food they consider to be unhealthy and to promote more balanced diets in the wake of the growing number of overweight or obese EU citizens (between 8% and 25% of the adult population, These measures result into the stigmatization of certain products and nutrients (including sugars) by creating a distinction between so-called “healthy” products/nutrients and “unhealthy” products/nutrients.Such taxes jeopardize the competitiveness of the industry;and lead consumers to switch to alternative products which are not necessarily "healthier".

Over the past year, the discussions on food taxes have intensified in some EU Member States, although one Member State took the decision to abandon such measures. Indeed, Denmark decided to abolish the saturated fat tax which entered into force in October 2011 and decided to cancel the planned extension of the sugar tax. The Danish government justified the withdrawal of the tax explaining that those food taxes may lead to potential job losses, administrative burden for companies and cross-border shopping in Germany. Some of these points had been raised by the food and drink industry.

Overview of measures in EU Member States

Several EU Member States have discussed the possibility of food taxes, but without concretizing the project. For instance, in September 2012, the Italian government considered including a tax on alcohol and sugary drinks in a draft bill; however due to strong opposition by consumer groups and the food industry, this proposal was not part of the final bill.

Some Member States have sought to intensify their tax measures. In addition to its Soft Drink Tax applying to all beverages containing added sugar or artificial sweeteners (which entered into force in January 2012), the French government considered taxing palm oil in order to discourage the consumption of oils rich in saturated fat (this measure has however been rejected by the French Senate). Other countries are discussing the possibility to introduce discriminatory food taxes: Malta is reflecting on the possibility to introduce a tax on unhealthy products (and an impact analysis was announced to determine whether taxes and subsidies should be introduced, and which products should be targeted). There are also indications that Ireland might envision an increase of excise duty on soft drinks as part of the December budget.

The Hungarian case

The Hungarian government enacted also a tax law targeting products (e.g., soft drinks, confectionery, bread, pastry, ice cream) on the basis of their "added sugars" content.The EU industry complained to the Commission about the discriminatory nature of the tax. After lengthy consideration of the complaint, the Commission concluded that the industry's complaint did not contain sufficient elements to demonstrate a possible infringement of EU law, and that therefore, there was no action that the Commission could properly undertake against the Hungarian government. The Commission decided that the Hungarian tax seems to have been established on objective criteria and the objective pursued by the Act (improve unhealthy habits) is considered as a "legitimate policy objective under the EU law." Following the investigation on the violation of article 110 of the TFEU, the Commission explained that as both domestic products and imported products are impacted by the Hungarian tax, there is no direct discrimination. Regarding the indirect discriminatory effect (taxed pre-packaged products vs. non taxed non pre-packaged products), the Commission considered that pre-packaged products and non pre-packaged products are not similar as they are different in flavour, in the raw materials used and in their availabilities, and all this makes consumers perceive these products differently. According to the authorities, these products cannot be considered to fulfil the same needs. The Commission also felt that the pre-packaged products and non pre-packaged products are not competing products (because the products are not similar as explained above, because small changes in the price are not able to lead to substitution, etc).

Since Member States have the power to enact such taxes, action at EU level remains limited. CEFS continues communicating messages against food tax measures based on the arguments that they are discriminatory and ineffective. CEFS participated in the drafting of the PFP (Primary Food Processors) position against food taxes. This position was submitted to the Advisory Group on Sugar and the one on Cereals/Oilseeds/Protein crops in December 2011 and it was joined to the minutes of the meetings. In addition, CEFS among other supporting organisations have expressed concerns over food taxes in the context of the High Level Forum for a Better Functioning Food Supply Chain. Hence, FoodDrinkEurope also requested to have the report indicate that it would be appropriate to start analysing the economic impact food taxes have on the competitiveness of the food and drink industry. The issue of food taxes was put on the agenda of the discussions of the Expert Platform on the competitiveness of the agro-food industry.

EFFAT has also finalised its position opposing the taxes, while favouring broader measures to encourage responsible eating habits in Europe, as it is not just food, but lifestyle, social conditions and education that contribute to the healthy habits.

EFFAT maintains that:

- corporate social responsibility demands that the EU food and drink industry must take responsibility to become a leader in the provision of healthy, nutritious and affordable food for EU consumers
- the health and nutrition agenda represents a positive opportunity for the food and drink industry to innovate, diversify and reformulate products, thereby enhancing its long-term competitiveness and sustainability
- further steps should be taken to ensure that all EU food and drinks meet high standards both for consumers and environment, for example, labelling nanomaterials, implementing full traceability of ingredients, responsible marketing and social labelling
- an integrated approach must be undertaken to tackle chronic non-communicable diseases, including a focus not only on diet and lifestyle, but on pesticides, fertilisers and other substances derived from the use of synthetic compounds in growing, processing and packaging food
- Europe must remove the economic, social and cultural barriers to ensuring everyone can access better nutrition and practice an active lifestyle, including low-income consumers that often include food workers due to precarious working conditions and low wages
- establish fairer relations among the actors of the food supply chain, so that food prices better reflect their real cost.

EFFAT encourages its affiliates to promote information and training on nutrition and active lifestyles in the local, national and European works councils of companies as a key health and agenda safety item.

II – MANAGEMENT OF RESTRUCTURING &ECONOMIC CRISIS

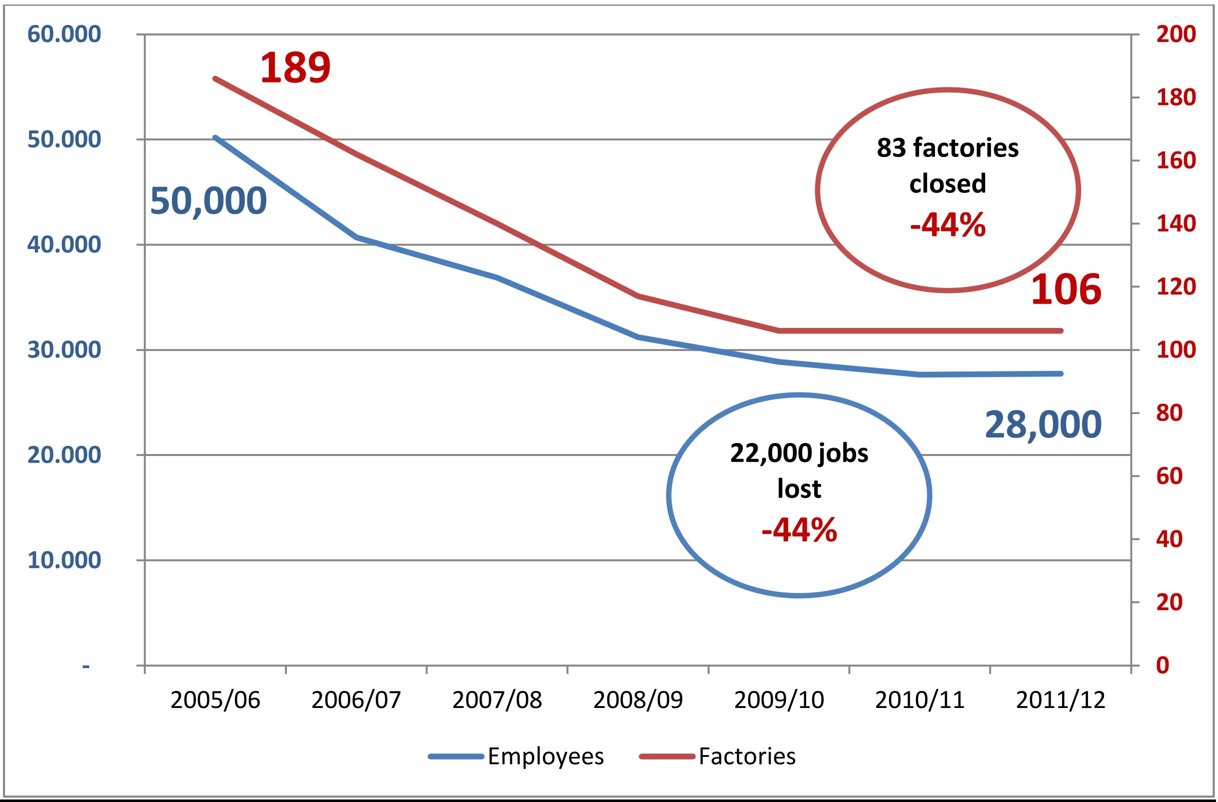
II.A - MONITORING OF FACTORY CLOSURES

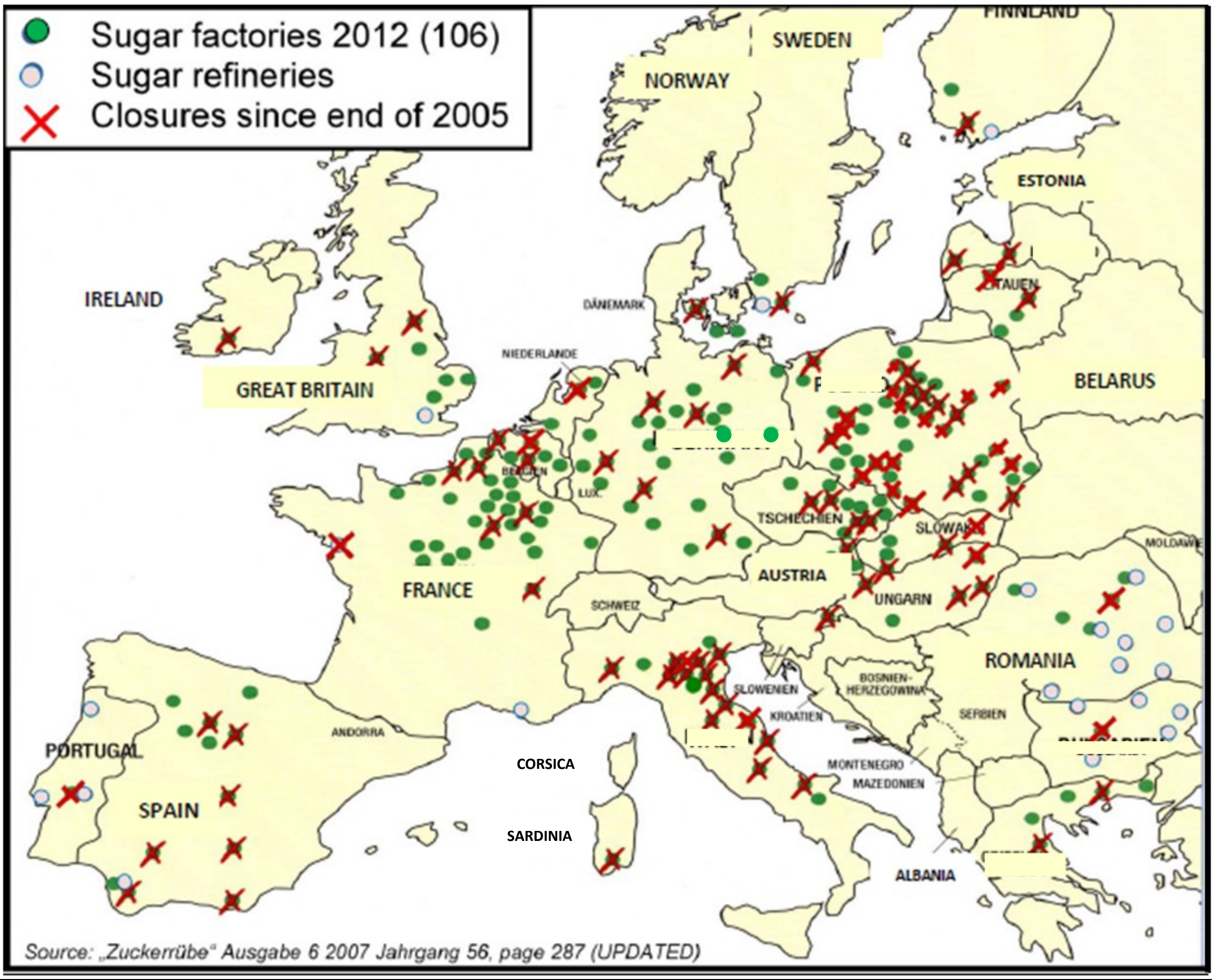
The social partners have been monitoring factory closures on the basis of public information, press releases and information received through trade union representatives for EFFAT and human resources managers for the CEFS. Essentially, they base themselves on public information provided by companies. Below – as of 31.12.2012 – is the trend in the situation for campaigns 2005/2006 (adoption of the sugar reform) through to 2012/2013:

a. *Trends in beet sugar factory closures since 2005/2006*

Source: CEFS statistics 2012 (EU 27)

www.cefs.org





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

Those figures 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. Bulgaria and Portugal became only refiners.**

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. In 2011 in France Cristal Union with the "Groupe Vermandoise"). **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).

b) Heavy job losses

According to above statistics, over the same period in EU 27 (2005/06-2011/12), **83 factories have disappeared (i.e. 44 % of factories since the start of the reform), leading to the loss of 22,012 direct jobs (44%) 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 110,000 indirect jobs would then be concerned during the campaign.

c) Remaining issues following the restructuring process

In Italy – following to the closure of 15 sugar factories out of 19 – at the very beginning in 2006, a specific agreement linked to the reform of the sugar regime was concluded at national level and it has been renewed each year and updated until now. Different projects have already been put in place according to the national restructuring plan, both to reconvert the dismissed factories towards different activities (see above paragraph on new activities), or to improve already existing packaging capacity, logistics and commercialization, increasing and/or maintaining employees.

Unfortunately, unexpected obstacles coming from the local authorities (no concession of authorizations) or due to the government itself (delay of adoption of the expected decree issuing favourable legislation supporting biomass energy production), together with the request of the Commission to dismantle all the silos near the dismissed factories (since the

Italian Government and Sugar Companies had opposed to this requirement), have been creating difficulties in the full implementation of the restructuring plans, causing the loss of several employment opportunities.

On the latter point, Italian trade unions (FLAI-CGIL, FAI-CISL and UILA-UIL) jointly with the Italian sugar companies are on the same side requesting the EU Commission that the silos are maintained in place as they have been part of the reconversion negotiations among social partners and it makes no economic, environmental or social sense to destroy them as they would have to be rebuild to fulfill the needs of the reconverted operations (logistic, commercial or packaging activities) and a significant number of jobs is attached to their use.

Such request - to maintain some of the silos amongst the ones which were used in Italy until 2005 - has been issued by all the Italian Companies and the Trade unions (together with the national Government) convinced this is the correct implementation of the Reg. 320/2006/CE. The Italian National Court has accepted this interpretation but now sent the final decision to Court to the European Court of Justice.

III – IMPLEMENTATION OF THE CODE OF CONDUCT IN 2012

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 2012 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. Recent examples of new good practices concern in particularly health and safety (Standard 3 of the Code of Conduct) and vocational training (Standard 2).

Health & Safety is considered as a priority in all delegations. New initiatives or actions were taken in different delegations, such as flu vaccination, driving safety training and skin cancer screening.

In the frame of vocational training, apprenticeship still plays an important role in a number of countries, helping young people to improve their skills on the labour market. More generally, the development of employability in the sugar industry remains a major topic in the context of continuous industrial change which could be accelerated with the planned changes of the sugar regime included in the proposals to reform the CAP post 2013. A specific web based interactive tool on "employability" was designed to this effect in 2010 and is publicly available on the "eurosugar.org" website. The attractiveness of the sugar industry is also considered as an important issue, addressed by delegations in different ways, as specific co-operations with universities and/or technical schools. One company developed specific actions to address the need of high qualified staff (see the example of good practice).

III. B. NEW EXAMPLES OF GOOD PRACTICE

Agrana in Czech Republic is taking an active role in the creation of a national system of positions and qualifications where sugar industry employment profiles would feature. Additionally, they also cooperate with secondary technical schools in order to prepare students for future apprenticeships and increase the attractiveness of the sugar industry among future graduates.

Norzucker AG in Germany presented three examples of good practices regarding:

- a specific programme aimed at training future managers with a focus in IT and Economic Bachelor graduates which are in particular demand.

- the introduction of a company-wide incentive for healthy-eating consisting in providing free fruits in all factories and company offices.
- Various programs related to health and safety covering issues such as flu vaccination, driving safety training and skin cancer screening.

III. C. ASSESSMENT OF THE CSR CODE OF CONDUCT (CoC)-

NEW DESCRIPTION OF THE ADOPTION PROCESS OF THE ANNUAL CoC IMPLEMENTATION REPORT

As part of their desire to continuously improve the European Code of Conduct in the sugar industry and following the review of the Code in the light of the ISO26000 norm in 2011, the social partners agreed that it would be desirable to be more explicit and transparent about how is the annual implementation report elaborated. The proposal currently under discussion by the social partners is the following:

EU CSR Code of Conduct in the sugar sector: *procedure for the adoption of the annual implementation report.*

Every year, around September-October, CEFS and EFFAT Secretariats launch a consultation of their respective national delegations regarding the application of the Code of Conduct during that natural year. That consultation takes place first through a questionnaire regarding the application of each of the 8 minimum standards contained in the Code of Conduct. CEFS also convenes a meeting with its members later in the autumn of that year in order to analyse the responses to the questionnaire and eventually complete or update those. That meeting is also an opportunity to analyse the economic and political context in light of its impact on the sugar sector. CEFS members present at that meeting are either company representatives (most often responsible for personnel matters) or social affairs experts within national sugar associations that collect and coordinate the response of their member companies.

Companies generally use the knowledge drawn from their regular contacts with workers representatives to identify those challenges as well as best practices that are to be reported under the EU Code of conduct. The collected information is then contrasted with the ones collected by EFFAT and, in the event that inconsistencies would appear, the issue would be discussed at the level of CEFS and EFFAT Secretariats, if needed, with the involvement of the social partners of the company (ies) concerned.

At least two face-to-face meetings between EFFAT and CEFS are generally required in view of coordinating the content of the implementation report and the preparation of the annual Plenary meeting of the social partners, where the report is adopted. Just before the plenary meeting (which traditionally takes place the last working day of February) both workers and employers representatives discuss separately the final draft report before the latter is discussed at the Plenary. The Plenary itself is designed, through presentations from experts *on relevant topics, to explore in greater detail some of the topics described in the draft report as well as emerging issues that should be the focus of the social partners' joint work in the coming year.*

To sum up, in the EU sugar sector the Code of Conduct implementation report is adopted through an extensive consultation process whose purpose is not only to report but also to explore issues of common interest, to disseminate information on best practices while creating a spirit of collaboration and contributing to the capacity building of social partners in the face of current and emerging challenges for the sector.

III. D. CAP AFTER 2013: JOINT FRONT OF SOCIAL PARTNERS TOGETHER WITH FARMERS AND ACP COUNTRIES.

Over 2012, the sugar partners have worked together to promote their joint position, the extension of the current Single CMO for sugar until 2020. This will enable the sector to continue to optimise its competitiveness and efficiency; to counter the instability of the world market, thus securing stable supply; and to provide the Least Developed Countries (LDC) and African, Caribbean and Pacific (ACP) countries with more time to invest in their infrastructure. This is outlined in "CEFS position on the EU sugar regime after 2014/15" issued in October 2011 and available online at www.cefs.org and www.effat.org.

Most importantly, Social partners organised a lunch debate at the European Parliament that took place on 6th November 2012. The public debate brought together EU workers' unions (EFFAT) and sugar producers (CEFS) as well as beet farmers (CIBE) and the African, Caribbean and Pacific (ACP) Group to issue a joint call for an extension of the CMO for sugar until 2020. This position was outlined in the joint statement and press release issued after the event and available online at www.cefs.org and www.effat.org (also annexed to this report).

The debate emphasized that the EU sugar sector has been through a major restructure since the 2006 CMO reform and that as a consequence 83 factories – almost one in two – were closed down, resulting in over 22,000 direct job losses, while more than 150,000 farmers ended beet cultivation in the EU27. In the debate, it was also questioned what industrial and agriculture policy was needed for Europe: it was clear from the debate that there was no room for a Common Agricultural Policy (CAP) that set the stage for the next step of the deindustrialisation and depopulation of EU rural areas. What was needed was a CAP that promoted strong, competitive and sustainable agriculture that kept EU rural areas productive and worth living in. Hence, the conclusion was that it was necessary to keep the sugar CMO as it stands.
EFFAT also drew MEPs attention to the current human and labour rights situation in Fiji where – following the 2006 coup d'état – collective agreements have been suspended and the fundamental human right of freedom of association is now jeopardized. EFFAT had written a letter to the Ambassador of Fiji to the European Union urging the full restoration of fundamental human and labour rights in Fiji and in the Fijian sugar sector, pointing out that they they are a presequisite if ACP countries and their sugar communities are to reap the benefits of the EU preferential market access regime.

The reform of the Single CMO for sugar "*should not entail further hardship for those working in the sector, especially at a time of considerable economic and social crisis*," said Harald Wiedenhofer, EFFAT General Secretary, during the event. While, the sector "*needs some time to ensure its investments pay off. It needs stability and predictability*," said CEFS President Johann Marihart.

In their joint position, EU beet farmers (CIBE), sugar producers (CEFS) and workers' unions (EFFAT) together with the African, Caribbean and Pacific (ACP) and Least Developed Countries (LDC) sugar producers call for an extension of the current Single CMO for sugar until 2020. They agree that this is the best way to ensure that the sugar sector can contribute to a smart, sustainable and inclusive future for Europe by preserving decent employment and guaranteeing stability while providing sufficient sugar supplies at sustainable prices for growers, processors, suppliers, workers and consumers.

Nonetheless, sugar social partners also see that the sugar regime needs some fine- tuning. For example, partners support the possibility to release out-of-quota sugar onto the EU market in cases where preferential imports fall short. The Commission took such measures in 2011 and 2012 and, as such, the reform should formalise the existing situation, providing legal certainty and market stability.

Looking forward, partners will continue to work together to promote their joint position in 2013, ahead of an agreement on the CAP reform which is expected towards the end of the Irish Presidency which runs from January to June 2013.

III. F. – PLENARY SESSION OF 28.2.2012

IMPLEMENTATION OF THE SD SUGAR INDUSTRY WORK PROGRAMME 2012

The conclusions of the 28 February 2012 SD Plenary meeting and social partners' Work Programme 2012 included the following points for action:

- ***Organize a joint debate event at the EU Parliament to draw MEPs' attention to the potential economic and social consequences of the different options of the sugar CMO reform under the CAP reform.***

> EFFAT and CEFS organised a lunch debate at the European Parliament that took place on 6th November 2012. The public debate brought together EU workers' unions (EFFAT) and sugar producers (CEFS) as well as beet farmers (CIBE) and the African, Caribbean and Pacific (ACP) Group to issue a joint call for an extension of the CMO for sugar until 2020. This position was outlined in the joint statement and press release issued after the event and available online at www.cefs.org and www.effat.org and annex to this report. For further details, see Section III D A of this Report,

- ***Enhance the transparency and improve coordination in the methodology for the development of the annual CSR report.***

> EFFAT and CEFS have agreed on a clear methodology and a joint questionnaire to carry out the yearly survey for the compilation of the CSR report. For a description of the procedure see section III C. The draft questionnaire is attached.

- ***Explore the possibility of taking up to the level of EU Code discussions areas until them dealt with at a company and local level.***

> Partners invited Jorge Chullén, IUF Global Sugar Coordinator, to their SD Plenary Committee 2013 to explore the EU sugar protocol programme and its social impact on ACP countries.

- ***Explore the demographics of the industry in view to retain/increase the sector attractiveness to young people, secure succession planning and managing an ageing workforce, including stress and psycho-social-related issues.***

  > Partners included the issue of demographic analysis of the industry in their Work Programme 2013, including the issue of gender breakdown. CEFS has already carried out some preliminary data collection in this field during 2012 and this will serve as a support for future joint work in this area during 2013.

- **Make an inventory of the good practices existing in the industry in the field of early warning systems and stress at the workplace management.**

  > Following the presentation of good practice by French sugar social partners in the SD Plenary of 28 February 2012 on the anticipation and management of stress related risks at the workplace, EFFAT and CEFS distributed key tools[12] among their respective affiliates and called upon them to identify and share initiatives in this field that could be disseminated. However, neither the CEFS nor the EFFAT Secretariats received concrete feedback on this topic, which led them to the conclusion that no specific initiatives are found on the ground yet. As a result, the EFFAT and CEFS Secretariat agreed to invite Mr. Claude Emmanuel Triomphe, an expert in the field of psycho social risks at the workplace as a result of restructuring to hold a session to familiarize social partners to the issue and encourage them to incorporate it in their Health and Safety committee discussions at the workplace. For 2013, partners have included the issue under their joint initiative to analyze the demographic structure of the industry and to identify good practices on managing an ageing workforce.

SD SUGAR INDUSTRY WORK PROGRAMME 2013

Social Partners' Work plan 2013 for the EU Sugar Industry is attached to this report.

[12] CEFS and EFFAT distributed the 2004 EU social partners BUSINESSEUROPE, UAPME and CEEP framework agreement on work-related stress available at http://ec.europa.eu/social/BlobServlet?docId=1479&langId=en and the compendium of the initiatives taken by social partners for the implementation of the agreement, compiled by the EU Commission in 2011, is available at the following address: available at http://www.europarl.europa.eu/registre/docs_autres_institutions/commission_europeenne/sec/2011/0241/COM_SEC%282011%290241_EN.pdf

SUMMARY OF THE10th CSR REPORT (2012) AND MAIN CONCLUSIONS

In the context of the current management of the sugar market

The European sugar industry responded positively to the sugar reform of 2006 by rationalising and improving efficiency, which entailed the closure of 83 factories in EU 27 (between 2005/06 -2009/10), the loss of 22,000 direct jobs and 110,000 indirect jobs. After a four year transition period necessary to adapt to the new situation, the sector has been able to improve its competitiveness.

In the meantime, a number of developments have fundamentally changed the situation :

- ⇨ **From being a net leading exporter, the EU has become a net importer, depending of third countries for 15 % of its needs**
- ⇨ **world sugar prices have been through significant swings in a context of extreme volatility in the world market**
- ⇨ **the imports expected from ACP/LDCs have decreased in 2010 and 2011 because world market prices were more attractive i.e. higher, than in the EU market.**
- ⇨ **consequently in 2010 & 2011 the EU experienced a period of tight supply. Available tools within the sugar CMO were used such as the release of out-of-quota sugar to allow European producers to ease market tensions.**
- ⇨ **At the same time – due to the fact that multilateral negotiations at WTO had stalled – the EU has multiplied the negotiation of regional and bilateral agreements everywhere in the world, granting further import TRQs which could unbalance the current EU sugar market, and entail economic and social consequences.**

The social partners :

=> demand - in the context of food security, that the priority is given to domestic production, especially when import deficiencies occur. The EU sugar production should be the first recourse in case of shortage. The release of non quota sugar must have the priority over extra imports from third countries.

=> they recognize the trade preferences granted to ACP/LDC, which should not be eroded by further concessions granted in Trade agreements. However they ask for a responsible EU Trade policy, respecting the new sugar balance set up after the reform, committing not to consider the EU sugar market as the adjustment factor with respect to unpredictable additional imports granted in FTAs.

=> call for 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 additonal duty free imports are continuously imposed is not sustainable in the long term.

Regarding the future sugar regime planned after 2014/15

- **The social partners globally support the CEFS Position on the EU sugar regime after 2014/15 issued in October 2011.**
- **They are opposed to the abolition of the quotas system as soon as 2015, which would entail a new considerable social impact.**
- **They demand that the process of change can continue at a pace which all stakeholders can respond to with a view to sustainable long term objectives of greater competitiveness. To this end the current market organization should be extended until 2020.**
- **they ask for market management tools to remain available in the Commission's 'toolbox' in order to respond to disturbances in the EU sugar market.**
- **They underline that, according to a recent LMC study conducted for CEFS, all producing countries in the world have implemented support mechanisms for their domestic industries with a view to protect them against the volatility of world sugar market and improve the domestic supply security. They ask for consistency with what other countries do elsewhere in the world.**

LIST OF ANNEXED DOCUMENTS

- CEFS-EFFAT COMMON POSITION ON CAP 2020
- CEFS-EFFAT COMMON POSITION ON TRADE
- CEFS EFFAT CIBE ACP DECLARATION ON THE SUGAR CMO AFTER 2020
- CEFS EFFAT CIBE ACP COMMON PRESS RELEASE
- EFFAT FACT SHEET ON THE REFORM OF THE SUGAR CMO
- CEFS-EFFAT CSR REPORT QUESTIONNAIRE
- CEFS PRESS RESEASE ON THE VOTE AT THE PARLIAMENT
- EFFAT PRESS RELEASE ON THE VOTE AT THE PARLIAMENT

The role of the social partners

The social partners have constantly underlined over the years the lack of consistency between the objectives of the different EU policies, in particular the agricultural policy and the Trade policy. Additional TRQ imports negotiated in the frame of the numerous FTAs in course of negotiation have an impact on domestic production capacities and therefore on employment. A reduction in quotas of 100,000 t represents in average the closure of one factory, which is an irreversible process. A factory closed 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 try to concert each other on any question of joint interest, to establish a useful exchange of information and reflections for the profession as a whole. With the support of the Commission, they are regularly developing practical web based tools with a view to facilitate the need of constant adaptation to change, as recently the interactive tool aimed at improving employability in the sugar industry. They try to help employees in their efforts to retain their ability to carry out a job throughout their lives in a spirit 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 2010 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.

A call for responsibility in future political choices

As it is the case for the current regime, the next reform of the sugar regime after 2014/15 will largely result from a political choice by the Union and the Member States within the context of globalisation. The social partners call for highly responsible choices, leaving enough time to the Profession to adapt to the new situation through a continuous improvement until 2020 with a view to ensure long term objectives of greater competitiveness in a sustainable way. On this depends in time the ability of companies to remain profitable and offer their employees prospects of employment and employability, a key topic in the frame of the 2020 Strategy.