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EU sugar social partners call upon the EU institutions to maintain employment levels in the sector and to streamline EU policies

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The European social partners in the sugar sector are extremely concerned about the approach taken by the European Commission in its external trade policy as pursued through bilateral and regional agreements. CEFS and EFFAT call upon the Commission, the Council and the European Parliament to respect the commitments adopted within the framework of the sugar reform to maintain viable European production and to negotiate trade deals that are consistent with the Common Agricultural Policy (CAP) and the key objective of securing socially inclusive growth in the EU. The EU must avoid granting additional concessions to trading partners which could further undermine EU production and entail greater hardship for sector employees, especially at a time of considerable economic and social uncertainty, record unemployment and harsh austerity measures being implemented in the EU. CEFS and EFFAT believe it is crucial that further economic and social disruption in the EU sugar sector be avoided and that the livelihoods of active EU sugar workers, their families and communities be valued and preserved.

Given the above, the European social partners ask the European Commission that:

1. in all trade agreements currently under negotiation, **sugar be excluded from any concession.** No further duty-free tariff-rate quota (TRQ) is to be granted. Products containing a substantial amount of sugar be excluded from negotiations;

2. in line with ongoing reform of the sugar sector and with multilateral negotiations, in case **additional concessions are granted, they should enter into force as late as possible and in any case after the future sugar regime** is established;

3. **effective rules of origin be maintained** and implemented;

4. it seek **international recognition of all its standards at WTO level**: such an approach should encourage regulatory convergence between the EU's trading partners enabling them to apply equivalent standards; until such convergence materialises, the European Commission should balance the unfair competitive disadvantage resulting from some imports by protecting EU-based sugar production to the degree necessary to achieve such a balance.

The social partners emphasise the fact that, a recent LMC International Study[1] regarding support measures in the sugar sector around the world, demonstrates how all major sugar-producing countries have implemented support mechanisms for their domestic industries designed to protect them against the volatility of world sugar markets and, in many cases, to raise self-sufficiency levels to improve security of domestic supply.
In 2010 and 2011, the imports expected on the EU Market from ACP/LDCs have decreased mainly because world market prices were more attractive i.e. higher than on the EU market. Consequently the EU experienced a period of tight sugar supplies. Available tools within the sugar CMO, such as the release of out-of-quota sugar, were used to allow the European Commission to ease market tensions.

In case of tight supply as a result of import deficiencies, EU domestic sugar production should be seen as the warrantor for security of supply. Therefore,it should be considered as the first recourse tool to supply the EU market and to ease the tensions.

The EU sugar industry is able and willing to play its role in supplying the market on a sustainable and responsible basis, thereby allowing jobs in the EU sugar sector to be safeguarded. This approach is in line with the 2005 compromise on which the new sugar policy was based, and with the *Europe 2020* and *CAP towards 2020* strategy the current Commission is willing to promote: **employment in rural areas, stable agricultural markets, food security at affordable prices and environmental sustainability** are all key objectives of such agendas.

Only an EU trade policy coherent with the above EU objectives will enable the EU sugar sector to further improve its competitiveness while at the same time benefitting EU employment, industry and consumers alike.

Annex with additional information

MAIN FEATURES OF THE EU SUGAR SECTOR

The social partners wish to remind the EU institutions of the main features of the EU sugar sector.

The EU sugar sector has already undergone several structural reforms, which have triggered negative economic and social consequences. A brief chronology of events and details of the relevant considerations in the view of the social partners are outlined below.

Reform of the EU sugar regime: towards a more competitive sector

- In 2006, the European Common Market Organisation (CMO) for sugar was radically reformed. The overall objective was to develop a sustainable market balance by eliminating inefficient production, provide import opportunities for developing countries, improve efficiency and become more market-orientated.

- The new CMO was launched in 2006 and its legal framework covers the period up to 2015. Key elements of the reform included a 36% cut in reference prices for EU and imported sugar, a 40% cut in the price of beet, and a 30-40% reduction in European output.

[1] Following the 2006 reform of the EU sugar regime and in view of the upcoming CAP review, CEFS commissioned LMC International, a leading firm of consulting commodity economists, to review the measures implemented by sugar-producing countries to support their domestic sugar industries.

- The reform is acknowledged by the Commission as having been a success, with EU quota production having been reduced by 5.8 million tonnes, i.e. 97% of the original target, and as having fulfilled the original objectives set for it[2].

- However, this reform has entailed huge social costs for the sector in terms of factory closures and employment cuts. Overall, the reform has resulted in **the closure of 80 factories out of a total of 182 in the EU-25 in just four years**[3]. This, in turn, has prompted the **loss of at least 22,000 direct jobs and 110,000 indirect jobs in the sugar industry.** All EU sugar-beet-growing and processing regions have been adversely affected and in particular rural areas where unemployment is already high and there are few opportunities for alternative employment. **Reform of the EU sugar regime has also spelled the end of sugar-beet cultivation for about 140,000 farmers** (source: CEFS statistics). Overall, five EU Member States have completely closed down their industries[4], while six have seen a 40% decline in national sugar production[5].

- The **new balance between domestic sugar production and preferential imports** means that some 85%[6] of total EU sugar consumption is now covered by beet sugar produced in 18 Member States. The remainder is imported from African, Caribbean and Pacific (ACP) states and Least Developed Countries (LDCs)[7] (these two sources accounting for over 50% of total imports), Brazil (which already supplies approximately 20% of the EU market[8]), Cuba, Australia and the Balkan countries.

- Employment in the EU sugar industry – notably in manufacturing – provides decent livelihoods and economic stability for its employees, their families and communities. Jobs in the EU sugar sector are therefore a key driver behind social inclusion in the areas in which they are found, an asset that is more precious than ever given the current socio-economic crisis the EU is currently facing. The EU sugar industry is also one of the best in terms of its social record, as confirmed by its longstanding EU Social Dialogue and CSR Code of Conduct, and by its yearly review mechanism, which has been in place since 2003.

- As a consequence of the sugar reform a number of companies have to shift to the focus their activities towards refining, biomass and ethanol production, introducing additional activities by diversifying into other crops (i.e. cereals, alcohol, starch), or in some cases switching to different activities altogether (i.e. agro food and retail). However, the EU sugar industry continues to play a crucial economic role where it still operates despite all the challenges it has been confronted with, and countries have responded in different ways to those challenges.

Most recent developments: the EU sugar sector a reliable supplier

- Since 2006, global developments have fundamentally changed the supply-and-demand dynamic in the sugar market. **World sugar prices and the costs of production outside the EU have soared,** and as a consequence importing into the EU has become much less reliable, and, in some cases, even economically unattractive. This is even more alarming in the light of the EU's current dependency on third-country producers to fulfil its sugar needs. In this respect, in 2010 and 2011 anticipated imports from ACP states/LDCs

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[2] As stated in its press releases of 27 January 2010 and 6 March 2009
[3] From sugar marketing years 2005-06 to 2009-10
[4] Bulgaria, Ireland, Latvia, Portugal, Slovenia
[5] Finland, Greece, Hungary, Italy, Slovakia, Spain
[6] Source: Reply of the Commission to the Special Report "Has the Reform of the sugar market achieved its main objectives?" SEC(2010)1016 final 7.9.2010 point 58
[7] LDCs are 49 of the poorest countries that have free access to the EU sugar market. ACP countries also enjoy free access.
[8] In 2010-11, due to exceptional imports allowed by the Commission the share of Brazilian exports to the EU totalled in excess of 25%.

decreased principally because world market prices were more attractive (higher than on the EU market); consequently the EU experienced a period of tight supply.

- With greater emphasis being placed on food security and given the concern around the possibility of the EU being hit by the volatility of sugar prices on the world market, increased focus should be placed on domestic production, which should take priority over imports. Despite all the above, throughout these trends the EU sugar industry has continued to fulfil the CMO reform's main goal of providing European customers with a secure sugar supply at reduced prices. Available tools within the sugar CMO have been used by the European Commission, such as the release of out-of-quota sugar to allow European producers to ease market pressure, as recommended in the European Court of Auditors' Report 6/2010 on sugar reform[9].

- According to the same European Court of Auditors' Report, the EU has increased its dependency on sugar imports "for what is a strategic product for the agri-food and chemical industries, while new uses for sugar, such as bioethanol, place increased demand on supplies"; meanwhile, the price of sugar on the world market has become much more volatile[10]. The resulting urgent calls for food security and concern around soaring food prices are therefore relevant not only to developing countries and their populations but to Europe and its citizens as well. Food security still lies at the heart of the CAP and is identified as a strategic objective in the *CAP towards 2020* Communication[11].

- The bulk of world supplies are in the hands of a few countries (Brazil for example represents almost 60% of world sugar exports). Climatic conditions can have heavy consequences on the global sugar balance.

Sustainability of EU sugar supply

- The loss of more EU sugar jobs resulting from further trade concessions would not only be socially unsustainable for EU sugar-producing communities, which have already paid a social price in the form of 22,000 direct jobs lost and which would struggle to survive additional job losses, but would be also profoundly unfair given that EU sugar companies and employees alike bore the social and economic burden of the reform with a high level of social responsibly. Further dismantling of the EU sugar industry would disregard this major contribution and take it for granted. Besides, it would send a dangerous signal to other EU industries that investing in social and environmental responsibility, as the EU sugar industry has done, does not pay and is not considered as a strategic factor when it comes to EU trade and industrial policy, an approach which flies in the face of the entire *Europe 2020* strategy.

- Safety, environmental and social standards in the EU sugar industry are high. In order to achieve and maintain such high environmental and social standards, EU sugar producers have invested and continue to invest significant resources in the sector, which puts them at a competitive disadvantage vis-à-vis non-EU producers that do not support a similar approach.

- Replacing EU beet-sugar production with cane sugar from those countries operating to significantly lower standards has negative (e.g. social) consequences not only at local

[9] Special Report No 6/2010 of the European Court of Auditors entitled 'Has the reform of the sugar market achieved its main objectives?"

[10] Ibid, point 58, p. 33

[11] The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future, COM(2010) 672 final, 18 November 2010

level but also on an international scale and will ultimately prompt global impacts (such as increased CO_2 emissions, increased pollution and increased use of scarce resources such as water and land). Indeed, cane sugar generally requires about 50% more water to grow than sugar beet which, in the EU, is mostly rain-fed and not irrigated. In areas in which water is scarce, increased cane-sugar production can thus exacerbate water-availability problems[12].

Consistency is required across EU policies

- It is crucial that the EU remains consistent in terms of the objectives of its various EU policies, in particular as regards internal and external matters. This is particularly relevant for the relationship between the CAP, EU employment, the EU growth strategy and the *Europe 2020* agenda, as well as across EU trade and development agendas.

- The EU is negotiating trade agreements with all regions of the world. The European Commission has decided to resume trade negotiations with Mercosur, which includes Brazil – by far the world's largest sugar exporter. The EU has recently agreed to grant significant EU market access to several Latin American countries such as Colombia and Peru, and to Central America. This trade policy decision may have already altered the new EU sugar market balance and will potentially trigger negative social consequences.

- The EU sugar sector has accepted the new balance set up after the 2006 reform. Nonetheless, **EU production must not be scaled back any further to cope with unpredictable and additional imports** granted in trade agreements; nor must it be seen as a bargaining chip in trade negotiations to obtain concessions in other sectors, for to do so would increase volatility on the EU market and would give rise to further adverse effects on the remaining jobs in the EU sugar sector.

- **Any additional concessions to third countries will prompt further EU restructuring and job losses** (it is widely estimated that for every additional 100,000 tonnes placed on the market, one sugar factory in the EU-15 – and even more in the new Member States – will close). Forcing European producers to reduce output at short notice undermines efficiency and would lead to further factory closures and inevitable accompanying social impacts in rural areas. The EU sugar industry is a capital-intensive one with a long term business model (e.g. up to 2,5 years production cycle, oscillation inherent to agriculture beet production) which requires a constant level of production to be maintained. Once closed, given all the expenses incurred, a factory cannot be reopened – the process is irreversible.

- ACP/LDCs preferences on the EU market are an important part of the EU sugar balance; they were introduced to benefit those countries and help them to increase their producing capacity, develop a local industry able to generate decent employment while preserving their natural environment. The European sugar industry paid the price for this political choice and had to reduce its domestic quota production by almost 6 million tons of sugar p.a. If now ACP/LDC imports lag behind the expectations with fewer exports, the European sugar industry should be part of the solution providing the

[12] A very recent study also found that cane-sugar production generally requires about 50% more land to produce an equivalent yield (e.g. sugar, animal feed and electricity) compared to growing and processing sugar beet. As a consequence, replacing EU beet sugar with cane sugar will increase the overall demand for arable land in the world, which raises serious questions around the efficiency (more land needs to be used) and equity of resources (tensions around land use and ownership) in developing countries. Finally, the same study also found that cane sugar in general is very likely to lead to greater emissions of CO_2 per tonne of product compared to EU beet sugar when the emissions of transport to the EU and emissions from *direct* changes in land use (e.g. from uncultivated to cultivated status) are also taken into account. Klenk, I., Landquist, B., Ruiz de Imaña, O. (2012) The Carbon Footprint of EU Sugar, *ZuckerIndustrie/Sugar Industry,* (publication expected 10 February 2012), Bartens (Ed) Berlin.

quantities missing on the EU sugar market. It would be inconsistent that missing imports from ACP/LDCs are counterbalanced by new import concessions given in the context of bilateral trade agreements or even multilateral concessions.

- **The concrete development outcomes in the countries the sugar regime reform was designed to benefit should be thoroughly assessed**. ACP countries benefitting from the EPA schemes and LDCs granted tariff-free access to the EU sugar market were expected to increase their production capacity and develop a local industry capable of generating decent employment while preserving the natural environment. The **EU social partners in the sugar industry would like to see an in-depth assessment of such outcomes** – notably an examination of the ownership structure of local sugar industries, their environmental impact, and whether profits benefit local communities – to assess whether the quality of jobs created is positive and whether improvements have been made in terms of observance of fundamental labour rights in such countries.

- Recently, the European Commission released a working document on the synergy between its trade and development policy.[13] The Commission advocates a different treatment of emerging economies as compared to LDCs, focussing on trade arrangements according to the needs of the latter. This reassessment of the EU trade and development policy questions the EU recent decisions to re-engage in FTAs such as with Mercosur for example.

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[13] See European Commission, 27 January 2012, Commission Staff Working Document. Trade as driver for development. Accompanying the document: Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee. Trade, Growth and Development. Tailoring trade and investment policy for those countries most in need.