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From: General Secretariat of the Council
To: Delegations

Subject: Report from the High-Level Group on sugar
- Presentation by the Commission

Delegations will find in the Annex a Presidency note based on the overall conclusions and summary of recommendations of the report from the high-level group on sugar¹ to be presented at the Council (Agriculture and Fisheries) on 15 July 2019.

¹ doc 11079/19

OVERALL CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS

Since the end of production quotas on 30 September 2017, the EU sugar sector has had to adapt to **new market conditions**. While the sector had been restructured with support of EUR 5.4 billion in the framework of the 2006 EU sugar reform and reduced its production capacities significantly, the **transition** to a post quota market environment is still ongoing.

In the first year post quota, EU sugar production on the world market faced a substantial **oversupply**, including an increase in EU sugar production by 25%. This has led to a sharp drop of sugar prices at EU (and global) level, which have not recovered yet, despite a lower sugar production in 2018/19, falling stocks and reduced area for the upcoming marketing year. The High Level Group (HLG) acknowledges that this difficult market situation is closely linked to the transition and that the market still needs to find its new balance. It considers that regular **market measures** were unable to deal with this specific market situation. This does not mean that the available market measures could not be used in the future. In this context, the Group requests the European Commission to further examine the possibilities for other market measures, in particular those offered by Article 222 of the CMO Regulation.

In addition to market management measures, the HLG identifies the following **issues** as relevant for the EU sugar market: i) Voluntary Coupled Support (VCS), ii) contractual relations between growers and sugar producers, iii) risk management tools, iv) market transparency in the sugar supply chain, v) the recent ban on neonicotinoids and the use of emergency authorisation by certain Member States; vi) international trade dimension, vii) EU funding of research and innovation activities, and ix) socio-economic aspects of the EU sugar sector.

While Member States' views are convergent for most of them, they differ substantially on VCS and the use of emergency authorisations for neonicotinoids. As regards **VCS**, part of the HLG recognises the effectiveness of the tool in comparison to decoupled payments in regions where sugar beet production is more difficult. Some Member States highlight the potential distorting impact on competitiveness and level playing fields in the EU. The HLG therefore requests that the European Commission closely monitor its implementation with a view to mitigating its potentially distortive effects, and some Member States made explicit reference to the on-going CAP reform discussions on the viability of the instrument.

Likewise, HLG members have opposing views on the use of **emergency authorisations for neonicotinoids**. Member States that have granted such authorisations justify their use by the lack of suitable alternatives, while others consider this practice unacceptable because of its potentially distortive effect on the EU sugar market. Against this background, the HLG recommends that the European Commission strictly control emergency authorisations for neonicotinoids and take legal actions, if justified, while inviting all interested parties to intensify research and innovation activities to develop suitable alternatives.

Some HLG members consider that the bargaining power of farmers has been weakened with the post-quota legal framework. Because of the importance of balancing market risks and bargaining power among actors for a resilient EU sugar market, the HLG invites relevant stakeholders to consider all possibilities of the current CMO Regulation to strengthen **farmers' position in the value chain**, including promoting the creation of Producer Organisations in the sugar sector.

The HLG agrees that **market transparency** is a key element for the agricultural sector as it improves market efficiencies, helps build trust between actors and represents a societal demand from farmers, workers and consumers. The main shortcomings concerning the existing system are perceived in the time lag in sugar price reporting and price transmission along the supply chain. Against this background, the HLG recommends to the European Commission to explore the possibility of pursuing the ongoing Market Transparency Initiative for enhanced sugar notifications on prices and quantities, while ensuring its cost effectiveness as well as respect for data protection and competition rules.

In the context of EU farmers being confronted in the future with a greater exposure to global markets and emerging new risks, the HLG urges all actors to strengthen **risk management tools** in regions with insufficient risk management systems in place. It recommends to the European Commission to initiate a comprehensive review on possible strategies for improving the long-term market resilience of the EU sugar sector, including the use and effectiveness of risk management tools.

The HLG considers that some global players are distorting the **world market** by means of irregular subsidies, and expresses concerns about the degree of access to the EU market resulting from new Free Trade Agreements. In this context, its members ask the European Commission to maintain the sensitive product status of sugar and ethanol in future negotiations, while preserving the right balance between the interests of beet sugar producers and EU cane sugar refineries. The HLG also recommends that the EU become a third party in the procedures against cases of unfair trade or domestic support practices in third countries.

EU funding for **research and innovation** activities provides important funds, e.g. under Rural Development Programmes and EU research and innovation programmes. The HLG stresses the need to ensure sufficient funding for research and innovation activities in the agri-food and bioeconomy sector, invites all stakeholders to make full use of the available financing and encourages the active involvement of stakeholders in the establishment of research programme priorities, both at national and EU level.

Finally, a concern of the HLG is the **socio-economic dimension** of the sugar sector (i.e. in terms of employment and regional cohesion). The HLG calls upon industry stakeholders and regional/national authorities, where necessary, to assess possibilities for diversification of sugar industrial facilities to develop new products, including opportunities in the EU bioeconomy strategy. It also stresses the need to make full use of all support possibilities to widen the product portfolio and to maintain production facilities in rural areas.