

SUGAR USERS FACE LOSS OF COMPETITIVENESS DUE TO THE CURRENT SUGAR MARKET SITUATION

DETAILED ARGUMENTATION

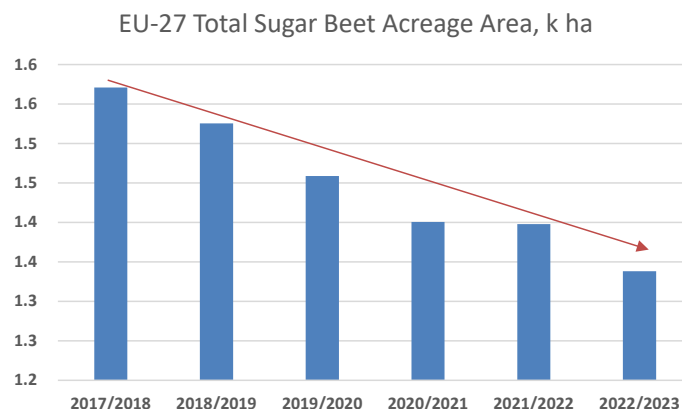
CIUS represents the European sugar-using food and beverage industries with more than 15, 000 companies across Europe. Members range from artisan, small-and medium sized enterprises to large multinationals. CIUS members incorporate sugar in a wide variety of added-value products representing almost 70% of the European annual consumption of sugar and provide direct employment for over 700,000 people.

This is a call for urgent political action. Sugar users of the European food and drink industry are suffering from the European sugar market situation and losing competitiveness day by day.

Although, our manufacturers have shown great resilience in recent years, despite major disruptions from the Covid pandemic, the war in Ukraine and the consequent energy crisis and inflation, availability, and price peaks for agricultural commodities such as sugar or other sweeteners, is severely striking our sector's competitiveness.

The market situation: year on year an EU sugar supply deficit

For the last 6 years we have seen EU sugar beet planting areas being reduced and a deficit in the EU sugar market balance, creating an unsustainable situation jeopardising therefore, our capacity to be self-sufficient and support accordingly all EU sugar users and their competitiveness. CIUS believes that this situation poses a significant threat to growth of European industries that rely on sugar, such as the confectionery, food and beverage sectors. These industries play a vital role in the EU economy and provide employment to millions of people across the continent.



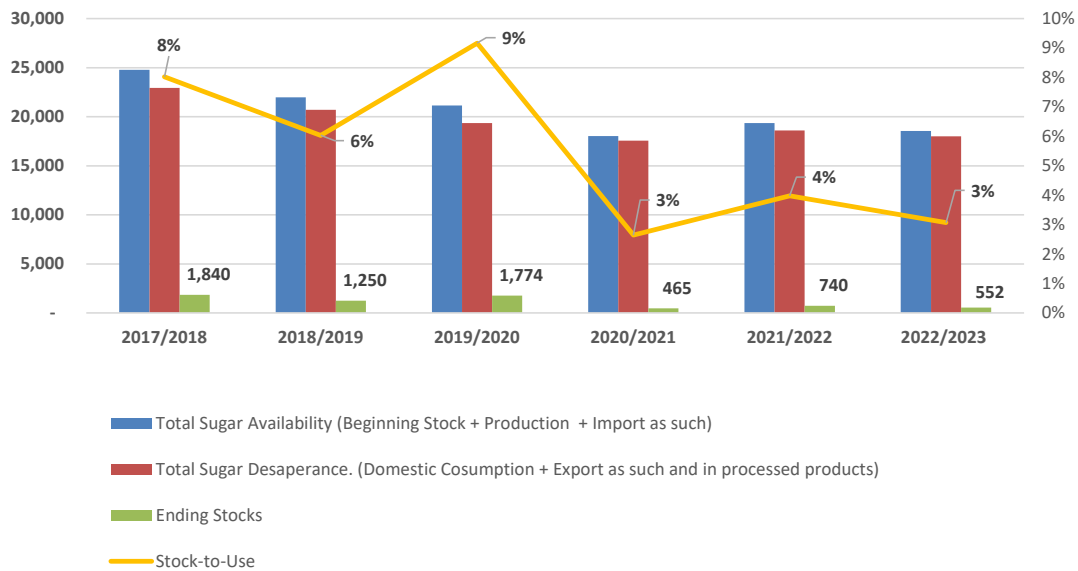
Source: EU Commission

The EU sugar supplies are tightening consistently, and the high-risk unfavourable scenario keeps on repeating itself: sugar supplies between agricultural years (Oct-Sep) are so low that the most vulnerable sugar users (SMEs) face critical shortage situations leading to dramatic economic consequences, such as

factory closures and job losses. In the supply crisis years 2010/11, several CIUS companies had to close their export businesses, even large companies were faced with having to suspend their production lines.

The European sugar production has seen its levels drop due to a decrease in beet planting areas and yields. The weather conditions have not helped and contributed to the risk of development of plant diseases (such as the yellow disease). In addition, European farmers have been facing a real issue finding fertilisers at an affordable price.

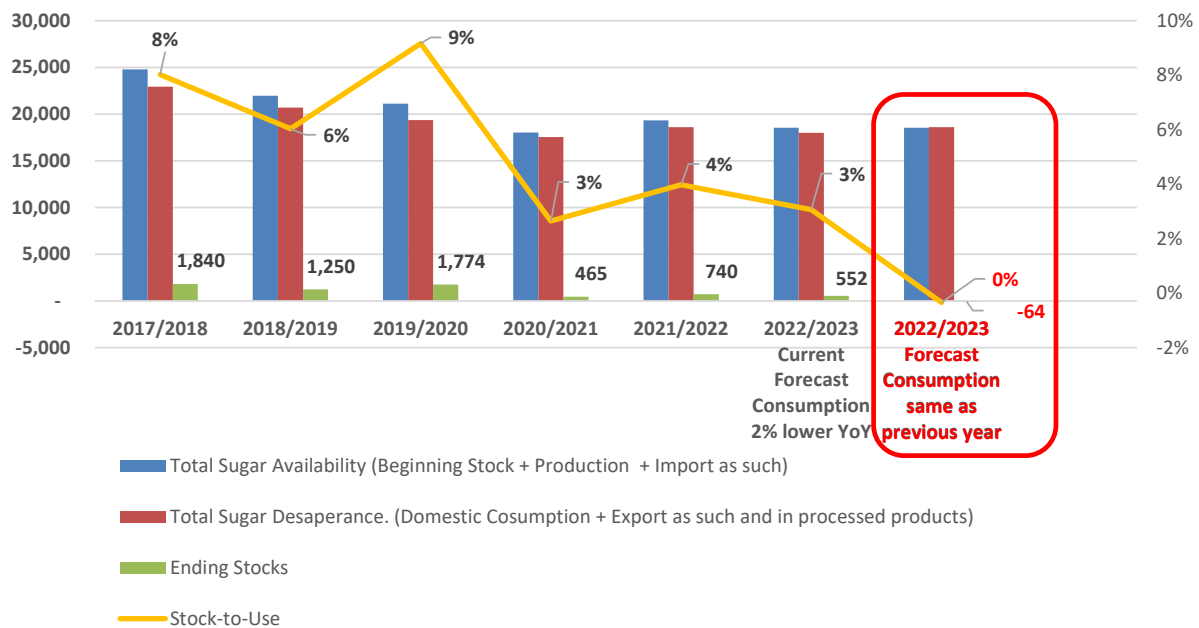
The official and published EU balance sheet data of sugar available from domestic production and import (excluding the import of sugar in processed products as this sugar obviously cannot be used for further use) vs. the sugar disappearance from domestic consumption and export clearly reflects a very tight supply situation particularly in over the last 3 years when the ending stocks were extremely low with stock-to-use levels at 3-4%. The ending stock forecast for current agricultural year 2022/23 shows sugar levels available for users at 552k Tonnes, which represents less than 2 weeks of EU sugar users' overall consumption.



Source: EU Commission

Furthermore, CIUS questions the reported consumption data of the balance sheet. The latest forecast shows more than 2% decrease in consumption for producing domestic and exported out of EU sugar containing products, although sugar users testify of a flat consumption of sugar on the market year on year. This is demonstrated by the number of volumes required for purchasing every year by our manufacturers for internal and export demand.

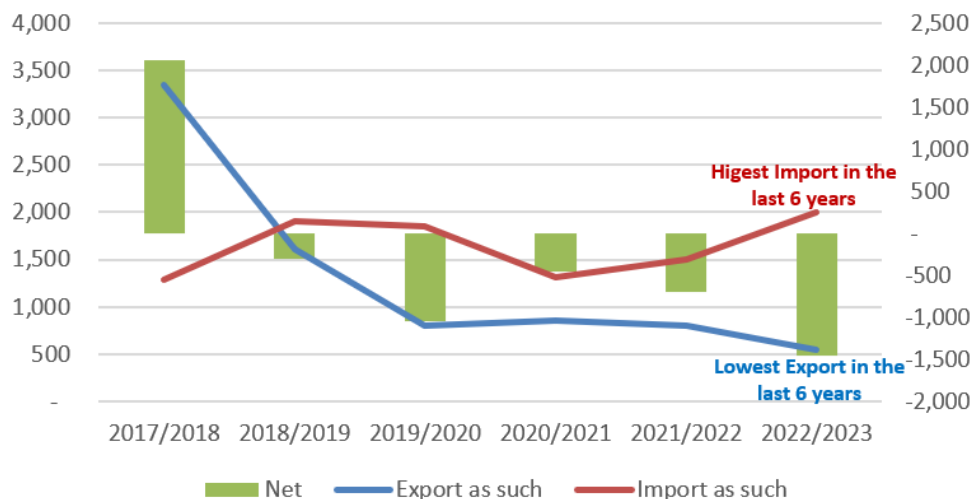
If a decrease as projected by the Commission reveals to be too pessimistic and in fact rather unchanged since last year, the end stock situation would be even worse and critical leading to factory closures and suspension of production lines across the entire region:



Source: EU Commission

Another clear indicator of a tight market and very alarming supply situation is the change of the EU sugar market import and export levels. Based on officially published EU Commission data for the flows of sugar as such (excluding the one in processed products) in 2022/23, the EU is facing the lowest sugar export rate and the highest sugar import rate for the last 6 years.

EU Sugar Export and Import as such

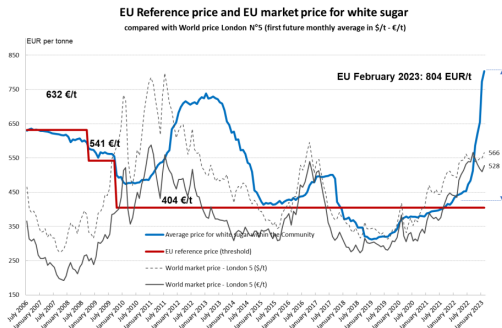


Source: EU Commission

Unprecedented record sugar prices

Prices for white sugar in the European Union have reached record highs rallying more than 80% in the last 12 months according to EU Commission published data and continue to rise. Other sources tracking EU sugar market spot prices indicate even higher levels.

White sugar on the world market however, is traded at half that price on the London Commodity Futures Exchange (ICE). This demonstrates that the European prices for white sugar has long since developed its own volatility, detached from the world market price.



Source: EU Commission

Not only do sugar users have difficulties to pass on the important price inflation to their customers in the food retail sector, but prices are also acting as a major driver of food inflation, putting a strain on consumers’ budgets wherever this price inflation occurs.

Furthermore, our high value-added sugar containing products are losing exports markets as they are unable to compete with operators on the world market. Exporting our products from the European Union represents more than 12% of the total production and is an important share of the EU’s economy.

Preferential origin rules applied on a weight-based criteria for sugar are impacting the food and drink industry even further, as they need to use imported material in their manufacturing. Not complying with origin rules or not being able to declare the origin without a supplier declaration, means that exporters cannot benefit from trade concessions.

What are the solutions available to help the sugar supply situation? Only duty-free imports of refined white sugar can help to resolve the situation!

Beet acreage and EU Production

Sugar users favour being supplied with locally produced EU sugar and some of the reasons were mentioned above. We would welcome any support that can be given to European beet growers to expand their acreages and yield to have more sugar production available locally. However, we have not seen any changes to acreages or production on the contrary, although the demand is there.

Suspension of Import Tariffs on White Sugar

From an economic point of view, the EU’s external protection for sugar is currently proving to be a price threshold up to which the sugar industry can drive its quoted prices without having to fear competition.

The exploitation of this price level also very clearly shows us that the European market is very likely under-supplied. Else, given a sufficient supply situation, there would have been enough competition to bring about a reduction in prices. We hence demand that the excessively high European protective tariff be suspended.

To drive a greater level of competition on the European sugar market and hence achieve a higher degree of supply security, we call for further market-oriented measures. Considering this huge rise in European prices, these should include the complete suspension of import duties on white sugar and other sweeteners such as glucose and dextrose.

Only if white sugar can be imported duty-free will the required level of competition be brought about. The current situation, in which mainly unrefined raw sugar is imported into the EU at preferential tariff rates, is not sufficient since it first needs to be refined. However, the European refineries are economically linked — or even identical — to the European sugar producers and have no interest in "competing with themselves".

Trade Agreements

Imports of sugar to additionally supply the deficit market should also come from trade agreements with sugar producing countries such as Australia and the regional bloc MERCOSUR. The concluded Trade Agreement with MERCOSUR that will hopefully be endorsed soon, represented a missed opportunity for imports of quality white sugar that could have helped the deficit situation greatly.

To diversify the sourcing potential for our important raw material, it is of great importance to offer Australia a large import quota for white sugar. The failure of the MERCOSUR agreement should not repeat itself. Focusing on raw sugar is only to the benefit of the EU sugar industry, which will continue to control the imports. Imports of raw sugar, which still must be refined, does not lead to more competition on the concentrated EU sugar market. Instead of privileging the EU sugar industry, imports of white sugar could stabilize the availability on the sugar market and lead to a quicker reaction of suppliers in times of shortages in the EU.

CONCLUSION

Therefore, it is essential for EU policymakers to address the challenges facing the EU sugar market and to ensure that industrial sugar users have access to enough of sugar availability at competitive prices. By taking action to address these issues, policymakers can help to ensure the continued competitiveness of EU industrial sugar users and the broader EU economy.
