



*Association des Industries de la Chocolaterie,
Biscuiterie et Confiserie de l'UE • Association
of the Chocolate, Biscuit and Confectionery
Industries of the EU*

• CAOBISCO
• 1 rue Defacqz - B - 1000 Bruxelles
• Tel: 322/539.18.00
• Fax: 322/539.15.75
• e-mail : caobisco@caobisco.be
•

Ref: 502-478e-final

May 2007

CAOBISCO key messages on export refunds and future export competitiveness

Through its 2500 companies, CAOBISCO represents 300,000 direct employees and generates more than 44 billion Euros annual turnover. CAOBISCO industries show a production of 10,8 million tons of products; 3.2 billion Euros of exports, i.e. 10% of the total value of food exports from the European Union; and an import value of € 1 billion. In terms of raw materials usage we represent over 50% of world cocoa consumption, 35% of EU sugar consumption and are the major users of dairy and cereals.

Nevertheless, the trade surplus has since 2002 followed a downward trend. The sector has also undergone job losses and small and medium-sized exporting companies have had to stop exporting, due mainly to high production costs and export problems.

The EU is a mature market for CAOBISCO. Therefore the sector relies heavily on its export competitiveness. To gain market access and market shares in third countries is vital for the industry, faced with growing competitors (emerging markets) on the world stage who have access to far cheaper input costs (agricultural commodities but also labour, transport, energy costs, etc.). And since the market is mature, tools to improve and guarantee high quality products to the consumer (innovation, new techniques), experience more and more competition from the outside and replication of our products is becoming easy.

Therefore, it is vital for us that the European Commission defends and promotes CAOBISCO's export competitiveness through not only access to competitively priced raw materials, but also by encouraging export further. Export refunds had been designed to compensate industries for the higher prices paid for the EU agricultural raw materials.

Export refunds to aim for price gap compensation

Current agricultural reforms are not likely to be able to bridge the price gaps between the EU market prices of raw materials with prices that can be found on the world market. Refunds for the processed agricultural products are not subsidies, as their role (officially and legally outlined in Council regulations) is to compensate for the difference of EU and World Market Prices and compensate EU exporters for the adverse effects of the EU Agricultural policy. Unfortunately, refund rates on raw materials in most cases, do not any longer reflect this price differential but are fixed by the Commission to manage the internal market (see below).

Furthermore, some of the players on world markets increasingly place the EU industry in an uncompetitive position. So far, export refunds have been used to put EU-based companies on a level playing field with competitors in third countries.

CAOBISCO analysis showed that export refunds constitute a significant part of the export price of the products. It is easy to demonstrate that, at current price conditions, a loss of refund would be too large to be absorbed by manufacturers, and too large to be accommodated within the export market without increasing the product price.

Since products have an average demand/price elasticity of 4 across destination countries, a 9% price increase, for example, would give a 36% reduction in export volumes amounting to 400,000 tonnes of finished products (€1.2 billion). Up to 10,000 jobs in the EU would be lost. Considering that profit margins are estimated between 2% and 8% in our sector, the removal of export refunds would lead to increases in product prices, making it difficult to keep non-EU customers.

Refund rates no longer reflect price gaps

Due to WTO engagements and EU internal budgetary constraints, payments of export refunds are under strong pressure to come to an end. Furthermore, currently, refunds are very often losing their function of properly bridging price gaps.

The Commission seems tempted to disregard the price gap bridging function of refunds and bring forward their complete elimination. Over recent months and years, the Commission has decided, for a number of products, to significantly reduce refunds or even to set them to zero. These decisions are taken on a sector-by-sector or product-by-product basis without any apparent global vision of its practical consequences on exports of food and drink products.

CAOBISCO considers that there is need to better manage the transition of phasing out export refunds, by sticking during this phase to the basic principle **that export refunds rates have to bridge price gaps and must not be used as instruments of EU domestic market management.**

The Commission should not take arbitrary decisions without economic justification when reducing the refund rates or setting them at zero. Moreover, such decisions lead to complexity, uncertainty and discouragement for operators.

Example of anomaly in refund rates

Recently, the remaining whole milk powder refund (based solely on butterfat component) was set to zero even though there is still a substantial export refund on butter. This anomaly has been compounded by the recent proposal to zero refund milk fat in processed products when it is derived from liquid milk rather than from butter or butteroil. This distinction would seem to ignore the fact that all milk fat is ultimately derived from liquid milk.

Recent experience has shown that the Commission does not apply these principles anymore, which implies the risk of losing export markets to non-EU competitors.

In addition, for those who are still able to claim refunds, it is increasingly costly to get refunds and difficult to achieve a level playing field. **There is a strong need for measures that would help reducing the cost of refunds management for us and for national administrations.**

Example of increased costs for a company

A company exporting 5000 MT of different processed foods (annex and non-annex 1) for a value of 12 million € requires 3 full time employees to manage export refunds, mostly because of certificates, documents, securities, and the search of proof of arrival at destination. In 2004 the costs for claiming refunds reached 36 % of the amount of refunds claimed. In 2006, for approximately the same quantity of products the costs had increased to 57% of the refund amounts claimed.

CAOBISCO requests for the future export competitiveness of the industry: competitively priced raw materials and internal mechanisms other than refunds

Any loss of refund should be conditional to a corresponding reduction in the material prices, and vice versa. A reduction in the material prices can be accompanied by a corresponding refund loss. However, elimination of refunds should only be considered when raw material prices are totally determined by market forces, and therefore will be similar to those on the world market. We oppose a kind of “stop-and-go” approach where refund rates vary for reasons that are not directly linked to price gaps.

The phasing out of refunds has to be linked with internal agricultural reforms and preceded by the implementation of alternative instruments for compensating exporters.

IPR

Facilitating competitive exports by allowing import of competitive raw material is probably the most straightforward and WTO compatible alternative on which the Commission should build on in finding alternatives to refunds.

Inward Processing Relief in its current state, does not provide a compensation for the loss of refund, and is not a practical option. Unworkable for dairy products due to the equivalence criteria, it's mechanism is hiding an important amount of administrative burden. Problems can be quantitative restrictions (within the special access for NA I products), the difficulty of supplying materials, Drawback Clause when exporting under preferential arrangements or storage in of EU/non-EU materials in different silos. Furthermore, the fact that different Customs authorities interpret the rules for testing the economic conditions in different ways is no help either. If these problems were solved, IPR could be one of the alternative instruments for replacing export refunds.

Therefore, it is urgent that the inward processing mechanism must be reviewed and simplified, so as for operators to access it without having to face additional burdens and constraints. It is of the utmost importance that access to IPR is granted automatically and not arbitrarily by local or central authorities. We are concerned about the politicisation of test of economic conditions from a simple assessment of economic viability of using Community sources, to a political decision on

whose essential interests should prevail, the interest of Community producers or the interests of operators who use or intend to use the processing procedure. The outcome therefore is no longer a result of sound economic judgement but who has the better lobbying influence, farmers & processors or EU manufacturers. We strongly recommend a system where as a general rule economic conditions are deemed to be fulfilled.

Out-of-quota sugar

Another option would be to make out-of-quota sugar available for sugar users (for their exports), as it is the case for other industry sectors. So far, C-sugar had to be exported as sugar as such, and is not permitted to be used in other products before exportation. Out-of-quota sugar under the new regime can only be used by other industry sectors (the pharmaceutical/chemical industries for example). To be able to incorporate out-of-quota sugar in processed products intended for exports may become a means to legally dispose of surplus sugar.

Bilateral trade concessions

An additional tool for maintaining competitiveness in the export market, is to gain concessions through bilateral trade agreements, on import duties of EU products in destination countries, in exchange for suspension of the export refunds, in advance of any forced removal of refund under the WTO process.

Competitiveness could be maintained if the import duty in the destination market for EU products was reduced by an amount equal to or greater than the value of the export refund. CAOBISCO is willing to explore the idea of offering the refund, in advance of any forced removal, as a negotiating concession in bilateral trade negotiations to secure reductions of the import duty applied to EU products.

Such bilateral arrangements would have to be balanced in order to ensure that the EU market was not placed at risk. The remaining EU duty must always be sufficient to prevent imported product from being more price competitive than that made in the EU. This alternative once again, is not an alternative to export refunds but a means to alleviate the impact of the phasing-out of Non Annex I refunds.

Conclusion

Leaving CAOBISCO operators without refunds and without the possibility to use competitively priced raw materials is severely damaging for the industry's competitiveness. It runs against the objective of enhancing the industry's capacity to reach out to rapidly growing markets in non-EU countries and has ultimately a negative impact on growth and jobs. Job losses, closing of factories and delocalization outside the European Union is already taking place and this phenomenon will certainly increase in the near future. It is of the utmost importance that systems alternative to refunds are put in place simultaneously and before the elimination of refunds in order to test their effectiveness and to allow operators to get accustomed to whatever new mechanism will be put in place.