

The Restructuring of the European Sugar Industry



Workshop: Reform of European Sugar Industry based on Polygeneration with the use of Energy Crops

17th June 2008, Warsaw, Poland

First 2 years of reform

Results in terms of :

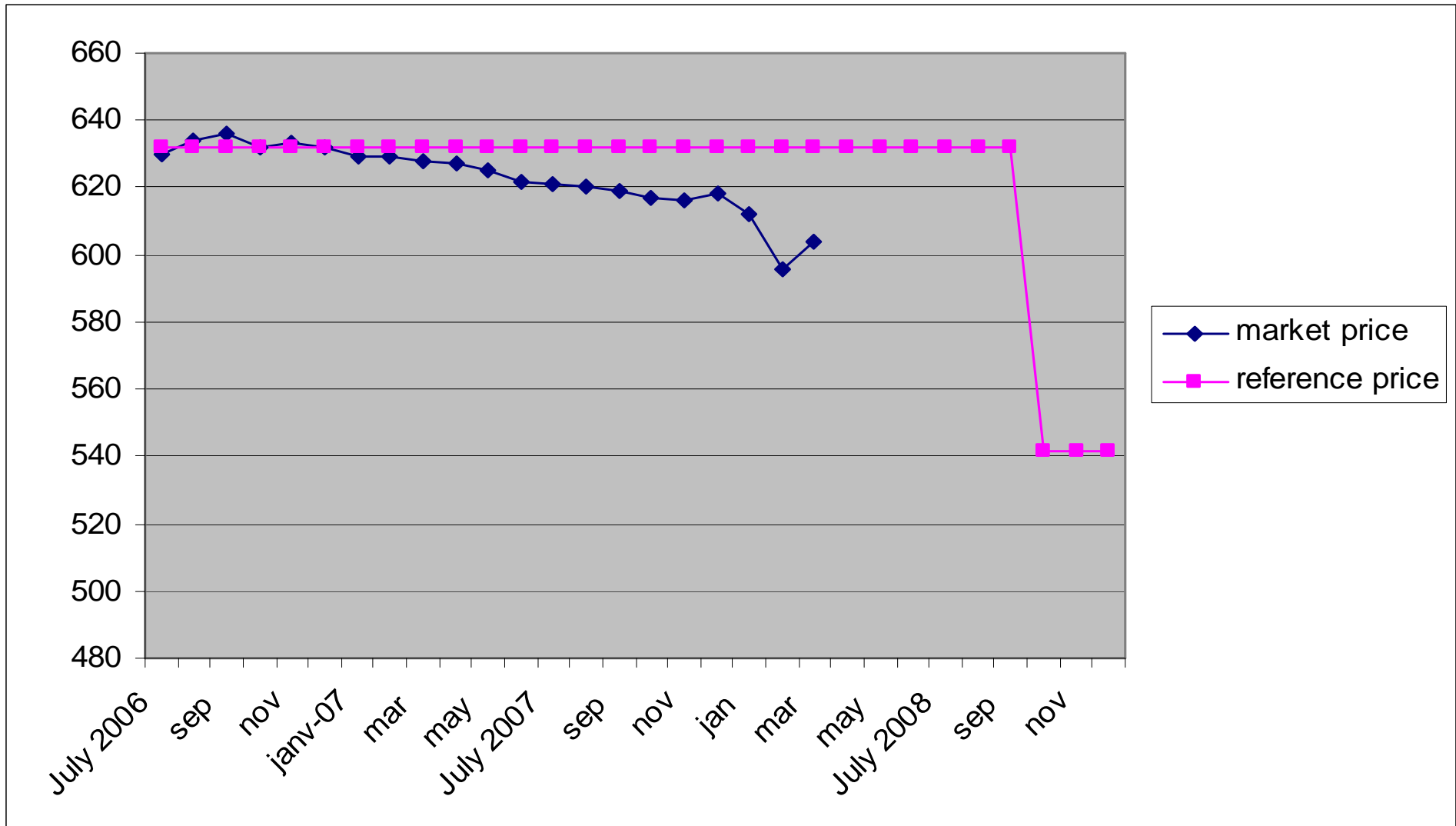
Prices' evolution

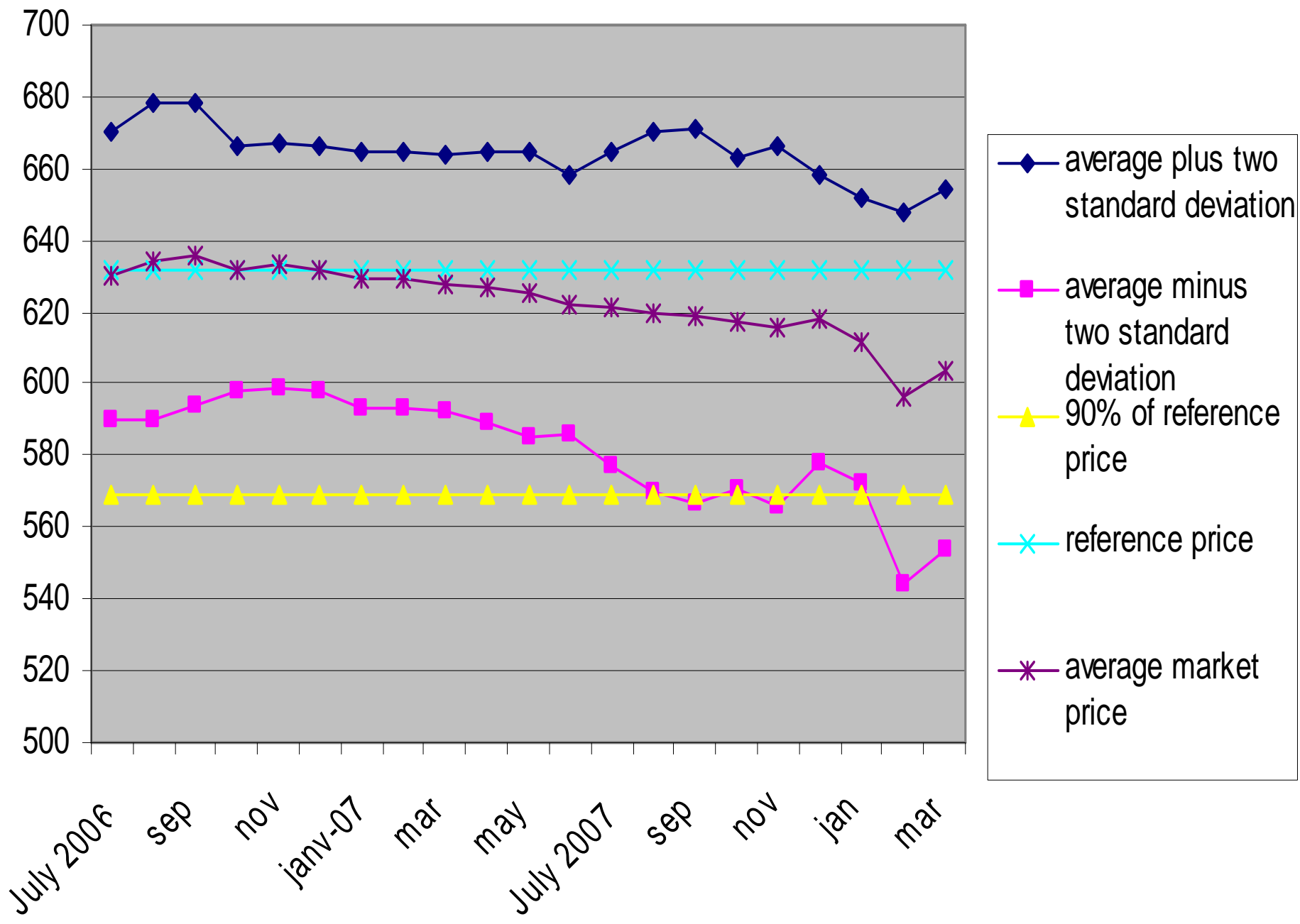
Volumes' evolution

Geographical allocation

What about market prices ?

Source : commission





First 2 years of reform

What about volumes' renunciation ?

Achievements of the first 2 years: (2006/07 & 2007/08)

2.18 million tonnes of quota renounced

First 2 years of reform

Regional allocation of quota renunciation until 2007/08

tonnes	Initial Quota	% EU27	Renunciation % of initial quota	Add. Quota	Quota 2007/08	% EU27
Ireland	199 260	1%	100%		0	
Latvia	66 505	0.4%	100%		0	
Slovenia	52 973	0.3%	100%		0	
Portugal	69 718	0.4%	78%		15 000	0.1%
Italy	1 557 443	9%	52%		753 846	5%
Greece	317 502	2%	50%		158 702	1%
Finland	146 087	1%	38%		90 000	0.5%
Slovakia	207 432	1%	34%	8 604	145 903	1%
Hungary	401 684	2%	27%	5 000	298 591	2%
Cz. Rep	454 862	3%	24%	20 070	372 459	2%
Sweden	368 262	2%	12%	17 722	343 422	2%
Spain	996 961	6%	11%		887 164	5%

'Reform of the reform'

Main objective of the 'reform of the reform' in 2007:

6 million tonnes

Nothing else will do

Main tools of the 'reform of the reform' in 2007:

More money (with the EU paying more to growers – mainly - and to sugar industry to get it)

More time (three steps to renounce quota in 08/09)

'Reform of the reform'

Result of the first two steps for 08/09

- Growers's initiative always overpassed by the industry in the second step except in Romania and France
- Sugar undertakings renounced a further 2.543 mt of quota sugar by January 2008 (including 0.132 mt for 09/10).
- Isoglucose undertakings renounced a further 0.061 mt of quota by January 2008.

3. 'Reform of the reform'

Commission's Press Release on the second wave available for sugar industry

The EU sugar sector faces a possible final quota cut of 1.16 million tonnes in 2010, based on renunciations at this stage under the revised sugar Restructuring Fund. This week the breakdown between Member States for this possible final cut will be delivered to Member States and to the stakeholders with a view to facilitate companies' decisions in the second step for 2008/09. ...

... If, by 2010, insufficient quota has been renounced within the restructuring scheme, the Commission is mandated to make compulsory quota cuts, with no financial compensation. Based on the 4.84 million tonnes of renunciations at this stage, the quantity to be cut in 2010 would be 1.16 million tonnes.

2. Restructuring scheme (sugar) state of play on 31 March 2008

Member State	Initial quota	Renunciation (+ add quota)	QUOTA 2009/10 (forecast)	% EU27
Bulgaria	4.752	100,00%	0	
Ireland	199.260	100,00%	0	
Latvia	66.505	100,00%	0	
Portugal	69.718	100,00%	0	
Slovenia	52.973	100,00%	0	
Hungary	401.684	74,08%	105.420	0,79%
Italy	1.557.443	67,36%	508.379	3,81%
Greece	317.502	50,02%	158.702	1,19%
Spain	996.961	50,00%	498.480	3,74%
Slovakia	207.432	48,01%	112.320	0,84%
Finland	146.087	44,55%	80.999	0,61%

2. Restructuring scheme (sugar) state of play on 31 March 2008

Member State	Initial quota	Renunciation (+ add quota)	QUOTA 2009/10 (forecast)	% EU27
Sweden	368.262	24,04%	293.186	2,20%
Belgium	819.812	23,36%	676.235	5,07%
Czech Republic	454.862	21,58%	372.459	2,79%
Germany	3.416.896	20,71%	2.898.256	21,73%
Poland	1.671.926	20,70%	1.405.608	10,54%
France	3.288.747	18,78%	2.956.787	22,17%
Lithuania	103.010	18,70%	90.252	0,68%
Denmark	420.746	17,70%	372.383	2,79%
Netherlands	864.560	13,59%	804.888	6,04%
United Kingdom	1.138.627	13,51%	1.056.474	7,92%
Austria	387.326	13,50%	351.027	2,63%
Romania	109.164	4,10%	104.689	0,78%
Fr-DOM+PT-azores	490.198	0,00%	490.198	3,68%
TOTAL EU27	17.554.453		13.336.741	

4. Economic elements of the reform

4. Economic results of the reform

Need to adapt to lower margins

- Previous intervention price minus minimum beet price minus average production levy was 247,5 euros per tonne of white plus molasses sales
- Now reference price minus minimum beet price minus production tax will be 196,2 euros per tonne plus molasses sales : - 21%
- *Lower relative profitability of beet cultivation*

4. Economic results of the reform

Pressure on costs of production

- **Reduction of variable costs**

The closed factories are the less efficient ones in terms of energy consumption or wages per tonne of sugar produced

- **Reduction of administrative costs**

(further computerisation of administration, merger of local HQ's, lower budgets for generic actions, etc.)

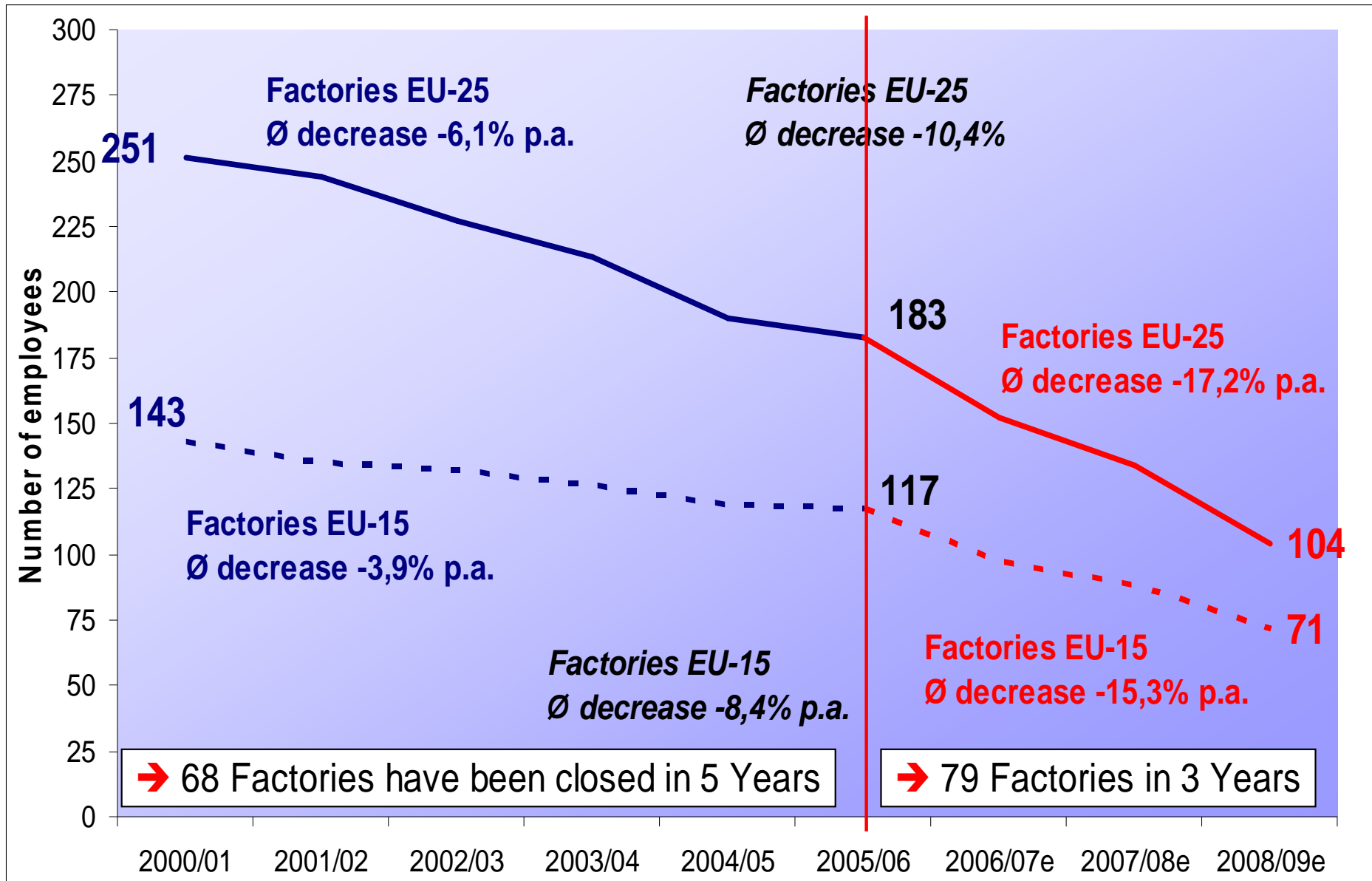
4. Economic results of the reform

Pressure on costs of production

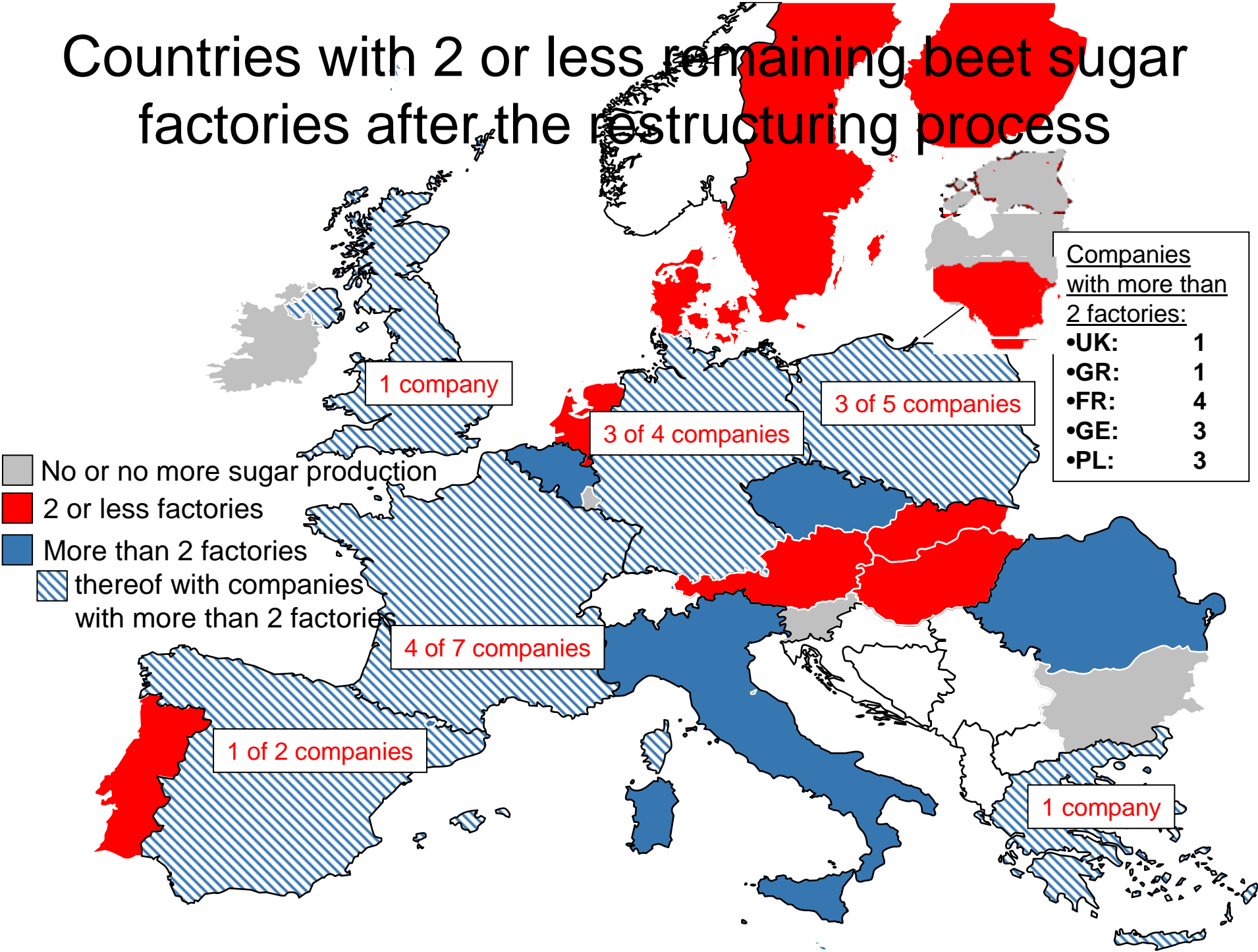
Increased use of fixed capital/assets:

- Lower the number and increase the size of production units (= increased length of production campaign, but also increased transport distances for beet if supply area not restructured)
- Additional activities (?):
 - Industrial sugar (including bio ethanol)
 - Bio-fuel production from other raw materials (wheat, etc.)
 - Refining raw sugar (sugar cane)

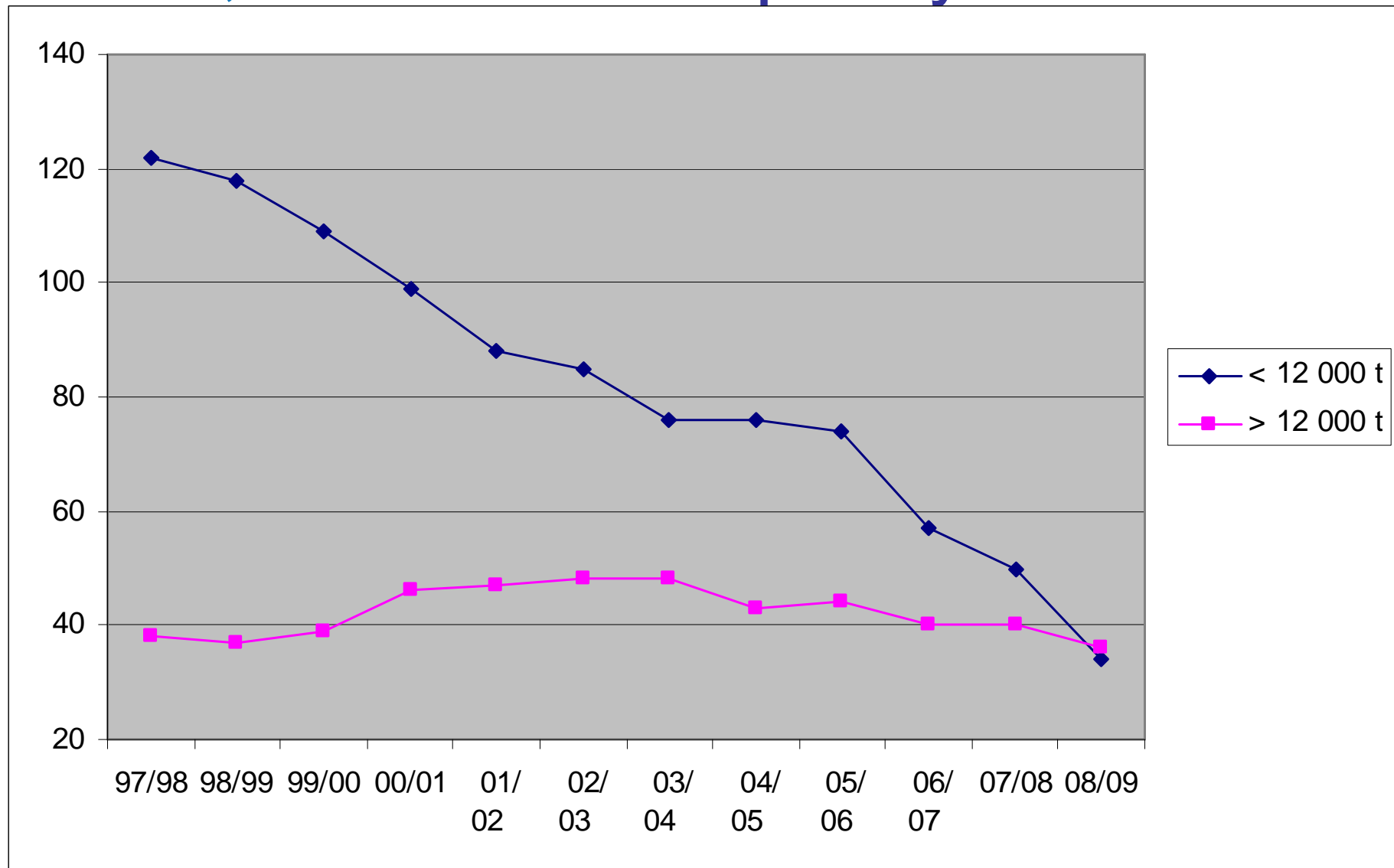
Restructuring has accelerated!



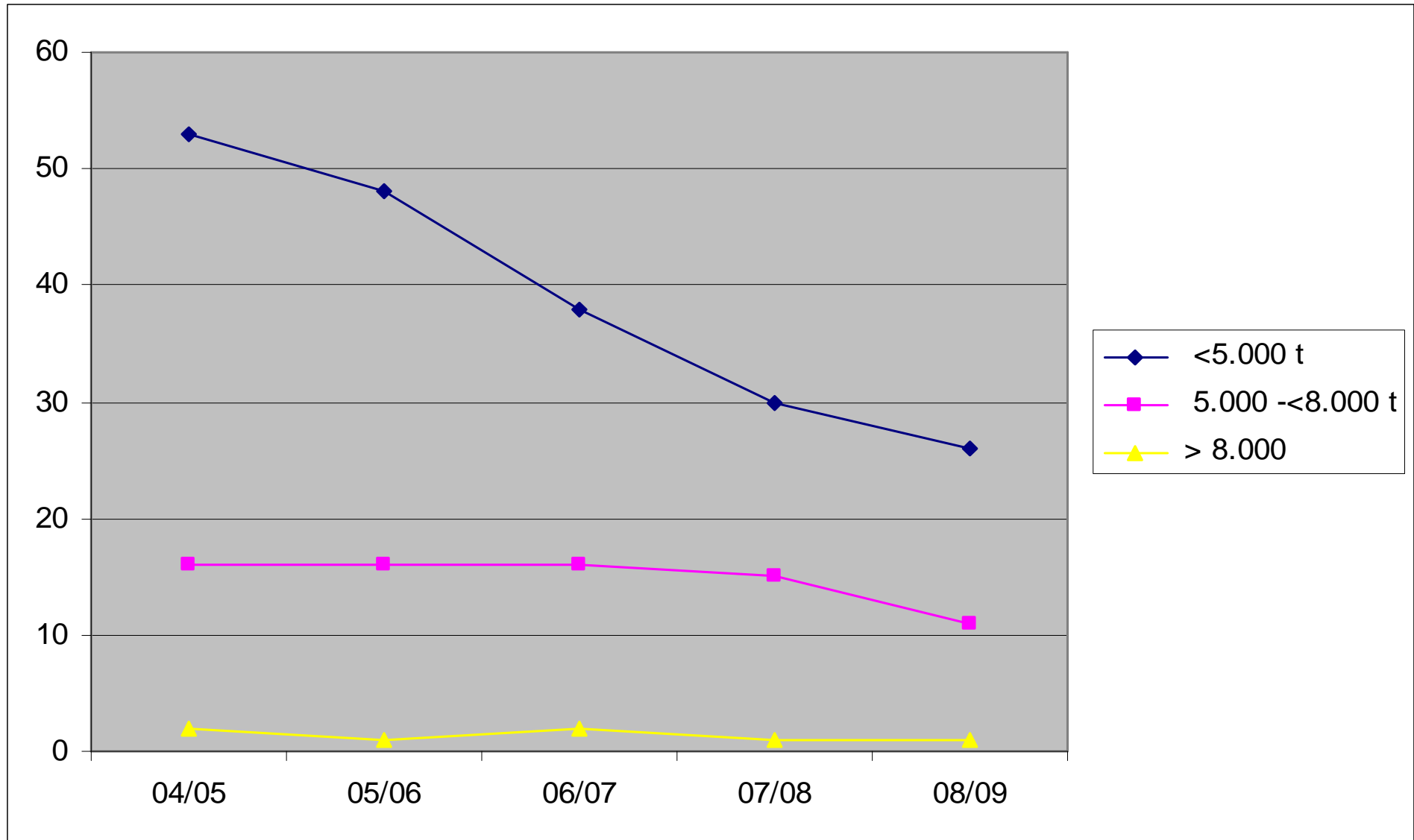
Countries with 2 or less remaining beet sugar factories after the restructuring process



with elimination of factories of below 12,000 tonnes capacity in EU 15



with elimination of factories of below 5,000 tonnes capacity in the NMS



Resulting in a 32% increase in average production capacity per factory

	size in 04/05		size in 08/09	
UK	190.000	NL	402.500	133%
SW	184.000	UK	264.000	39%
NL	173.000	BE	225.500	65%
DK	140.000	DK	186.000	33%
BE	137.000	AUS	175.500	36%
GER	131.000	SW	175.500	- 5%
AUS	129.000	GER	152.500	16%
FRA	110.000	IT	127.000	39%
IR	100.000	SPAIN	124.500	37%
IT	92.000	FRA	118.500	8%
SPAIN	91.000	EU 25 average	118.000	32%
EU 25 average	88.500	HUN	99.500	24%

5. Future market balance

3. EU sugar trade – balance sheets (sugar and isoglucose)

x mio tonnes	2005/2006		2008/2009 forecast	
	<i>quota</i>	<i>out-of-quota</i>	<i>quota</i>	<i>out-of-quota</i>
1 Beginning stocks <i>1 july</i>	6,2	0,0	<i>1 oct</i> 3,3	0,0
2 Production	16,1	4,8	14,1	1,9
3 Imports	3,0	0,0	3,6	0,1
4 TOTAL AVAILABLE <i>4 = 1 + 2 + 3</i>	25,3	4,8	21,0	2,0
5 Consumption intra EC	16,1	0,0	16,6	1,3
6 Exports	3,6	4,8	1,0	0,7
7 End stocks <i>30 June</i>	5,7	0,0	<i>30 Sept</i> 3,4	0,0
8 TOTAL OUTLETS <i>8 = 5 + 6 + 7 = 4</i>	25,3	4,8	21,0	2,0

5. Consequences for EU sugar market balance

EU sugar & isoglucose consumption	16.6
Imports of sugar in processed products	- 0.6
Sugar & isoglucose production <i>(quota after first wave minus 1.16)</i>	- 13.8
Exports of sugar and sugar in processed products	+ 1.0
Balance to be met by imports	= 3.2

5. Consequences for EU sugar market balance

Balance to be met by imports	3.2
Import of white sugar from Balkans	- 0.4
Import of raw sugar MFN (Bulg, Rom)	- 0.6
Traditional Supply Needs for refiners coming from EPA's (on top of MFN)	- 1.7
Need for additional white and raw sugar imports from EPA's	= 0.5

The growth of deficit areas and shrinking of surplus areas

North

Deficit in 04/05 incl processed prod	- 600
Excess after refining	700
Deficit from 08/09 incl proc products	- 1100
Excess after refining	200

Central

Excess in 04/05 incl proc products	1700
Excess after refining	2000
Excess from 08/09 incl proc products	800
Excess from 08/09 after refining	1150

South

Deficit in 04/05 incl proc products	- 650
Deficit after refining	- 300
Deficit from 08/09 incl proc products	- 2300
Deficit from 08/09 after refining	- 1900

East

Excess in 04/05 incl proc products and refining	850
Excess from 08/09	60

EU 25

Excess in 04/05 incl proc products	1300
Excess after refining	3250
Deficit from 08/09 incl proc products	- 2540
Deficit from 08/09 after refining	- 500

*Source: EU market balance in 04/05 by country and data related with EU enlargement for NMS

6. CONCLUSION

Massive reduction in the size of the industry

Difference between the political objective of 3.5 million tonnes coming from EPA's and the import needs = **1.3 mt**

Therefore : There is NO ROOM for any further increased market access due to bilateral or multilateral agreements

Balance equilibrium depends on imports only into the EU deficit areas



Thank you!