

The Restructuring of the European Sugar Industry



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

2nd October 2008, Athens, Greece

First 2 years of reform

Results in terms of :

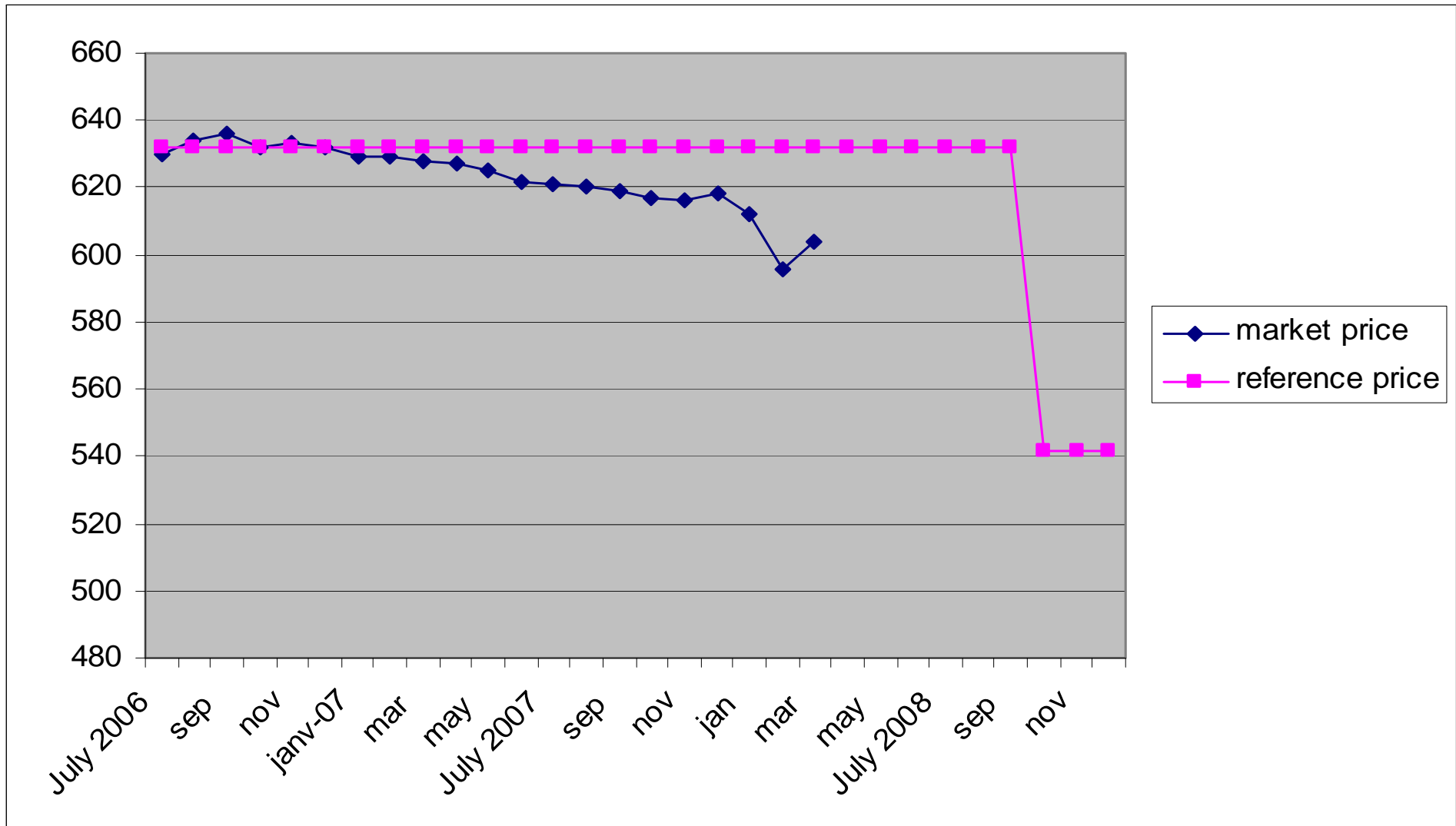
Prices' evolution

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

and 45 sugar factories closed

First 2 years of reform

Regional allocation of quota renunciation

	Initial quota	Renunciation of initial quota	Cumulated % of EU quota renounced
Ireland	199 260	100 %	1,0
Latvia	66 505	100 %	1,4
Slovenia	52 973	100 %	1,8
Portugal	69 718	78 %	2,0
Italy	1 557 443	52 %	6,7
Greece	317 502	50 %	7,7
Finland	146 087	38 %	8,1
Slovakia	207 432	34 %	8,4
Hungary	401 684	27 %	9,0
Czech Rep	454 862	24 %	9,7
Sweedden	368 262	12 %	9,9
Spain	996 961	11 %	10,6

'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

	Initial quota	Renunciation of initial + add quota	Cumulated % of EU quota renounced
Bulgaria	4 752	100 %	0,0
Ireland	199 260	100 %	1,1
Latvia	66 505	100 %	1,5
Slovenia	52 973	100 %	1,7
Portugal	69 718	100 %	2,1
Hungary	401 684	74 %	3,7
Italy	1 557 443	67 %	9,4
Greece	317 502	50 %	10,2
Spain	996 961	50 %	12,9
Finland	146 087	44,5 %	13,3
Slovakia	207 432	50 %	13,9

2. Restructuring scheme/state of play on 31 March 2008

	Initial Quota	Renunciation of Initial + add quota	Cumulated % of EU sugar quota + add renounced
Sweden	368 262	24 %	14,4
Belgium	819 812	23,4 %	15,5
Czech Rep	454 862	21,6 %	16,1
Germany	3 416 896	20,7 %	20,1
Poland	1 671 926 3	20,7 %	22,1
France	3 288 747	18,8 %	25,8
Lithuania	103 010	18,7 %	25,9
Denmark	420 746	17,7 %	26,3
Netherlands	864 560	13,6 %	27,0
United Kingdom	1 138 627	13,5 %	27,9
Austria	387 326	13,5 %	28,2
Romania	109 164	4.1 %	28,2

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 243,5 euros per tonne of white (excl molasses sales)
- Now reference price minus minimum beet price minus production tax will be 196,2 euros per tonne (excl molasses sales) : - 19.4%
- *Lower relative profitability of beet cultivation*

EVOLUTION OF THEORETICAL INDUSTRIAL MARGIN

	2004/2005	2006/2007	2007/2008	2008/2009	2009/2010
Interv or ref price	631.9	631.9	631.9	541.5	404.4
Restructuring levy	0	- 126.4	- 173.8	- 113.3	0
Prod levy or tax	- 21.7	0	- 6.0	- 6.0	- 6.0
Min beet price	- 366.7	- 252.8	- 229.1	- 214.1	- 202.0
Theor margin	243.5	252.7	223.0	208.1	196.2
Cumulated gap	-	+ 9.2	- 20.5	- 35.4	- 47.3

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.)

- Concentration of the Sector (e.g Danisco, Ebro)

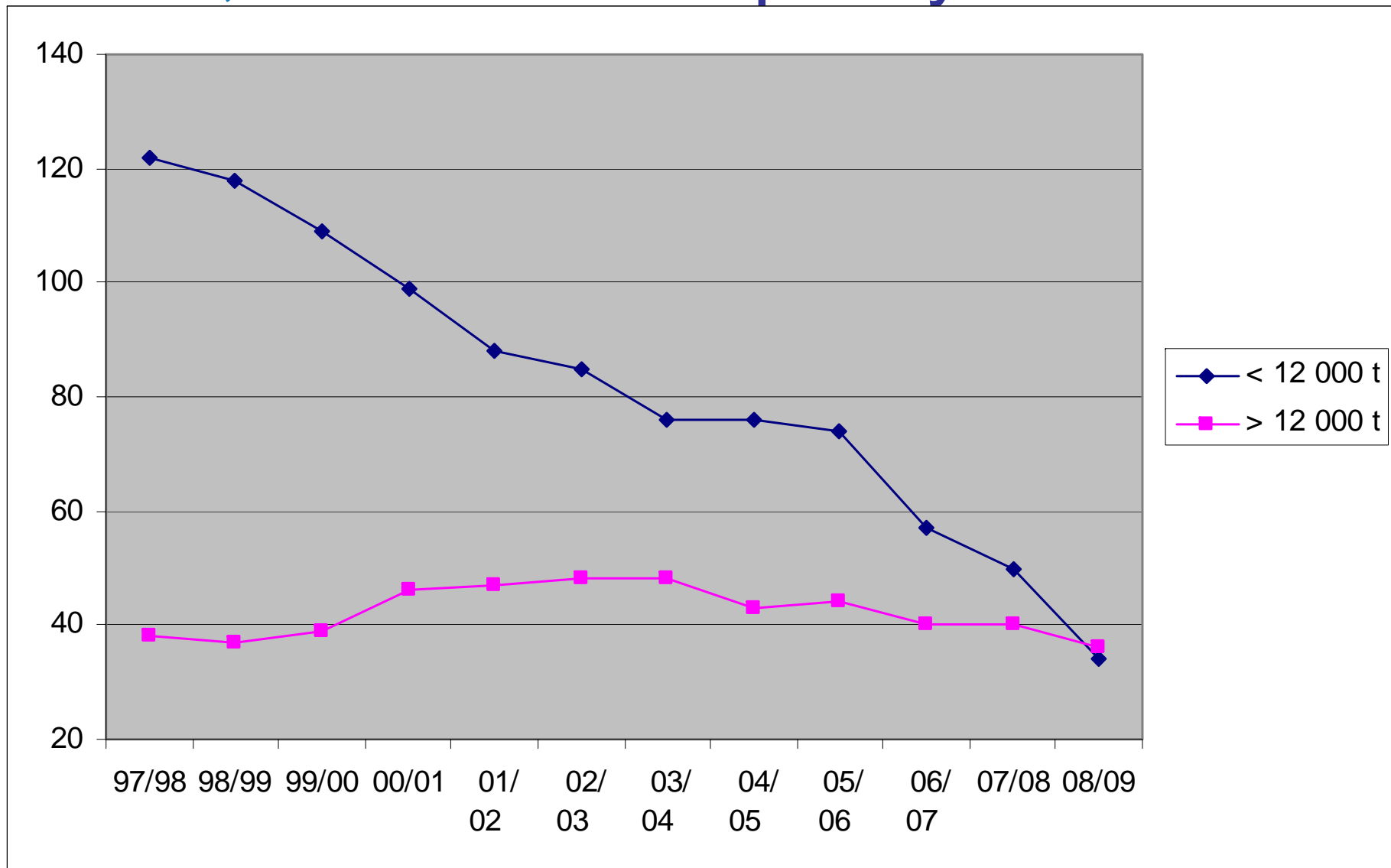
4. Economic results of the reform

Pressure on costs of production

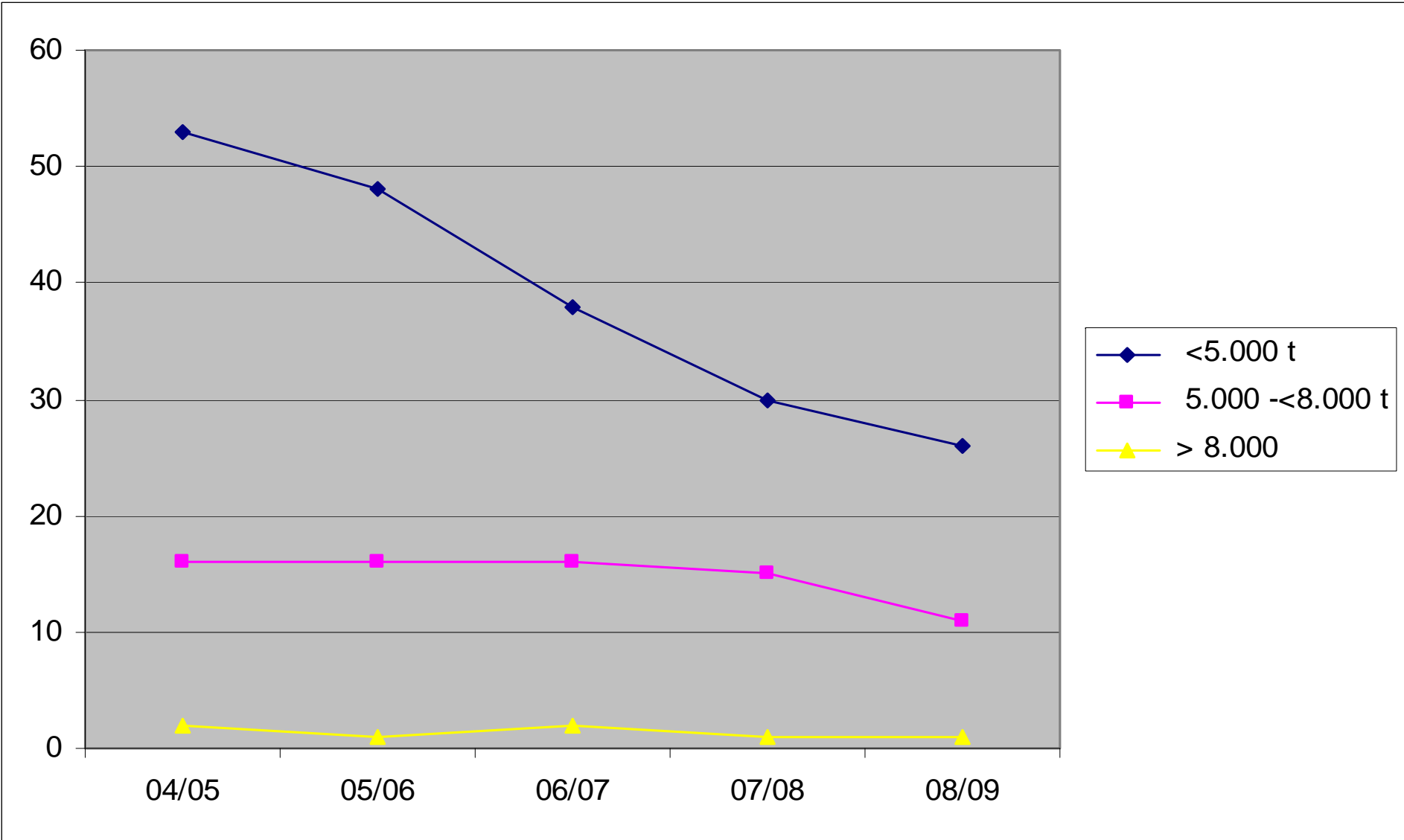
Increased use of fixed capital/assets:

- 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)

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 33% increase in average *quota* production capacity per factory

	size in 04/05		size in 08/09	
UK - 6	190.000	NL- 2	402.500	133%
SW – 2	184 000	SW – 1	293 000	59%
NL - 5	173.000	UK - 4	264.000	39%
DK - 3	140.000	BE - 3	225.500	65%
BE – 6	137.000	DK - 2	186.000	33%
GER - 26	131.500	AUS - 2	175.500	36%
AUS - 3	129.000	GER - 20	145 000	10%
FRA - 30	110.000	IT - 4	127.000	39%
IR - 2	100.000	EU 25 average	121 500	32%
IT - 17	92.000	FRA - 25	118.500	8%
EU 25 average	91 800	HUN - 1	105.500	31%
SPAIN - 11	91 000	SPAIN - 5	100 000	10%

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

	size in 04/05		size in 08/09	
EU 25 average	91 800	EU 25 average	121 500	32%
HU - 5	80 000	HU - 1	105 500	31%
Fin - 2	73.000	Fin - 1	81.000	11%
Port - 1	70 000	Pol - 25	56 200	45%
Hel - 5	63.500	Slk - 2	56 200	36%
Slo - 1	53 000	Hel - 3	52.900	- 17%
Slk	41.500	CZ - 7	53 200	29%
CZ	41.400	Lith - 2	45.100	75%
Pol	38.900	Port - 0	0	
Lith	25.750	Slo- 0	0	

5. Future market balance

3. EU sugar trade – balance sheets

(sugar and isoglucose)

	2005/2006		2008/2009	
	quota	Out of quota	quota	Out of quota
1. beginning stocks	6,2 (<i>1st July</i>)	0,0	3,5 (<i>1st Oct</i>)	0,4
2. production	16,1	4,8 (<i>incl 1,8 declassif</i>)	13,7	3,0
3. Imports	3,0	0,0	3,5	0,1
4. TOTAL AVAILABLE	25,3	4,8	20,7	3,5
5. Consumption	16,1	0,0	16,6	1,4
6. Exports	3,6	4,8	1,0	1,4
7. End stocks	5,7 (<i>30th June</i>)	0,0	3,1 (<i>30th Sept</i>)	0,7
8. TOTAL OUTLETS	25,3	4,8	20,7	3,5

5. Consequences for EU sugar market balance

EU sugar & isoglucose consumption	16.6
Imports of sugar in processed products	- 0.6
Sugar & isoglucose production	- 13.7
Exports of sugar and sugar in processed products	+ 1.0
Balance to be met by imports	= 3.3

5. Consequences for EU sugar market balance

Balance to be met by imports	3.3
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 imported from EPA's	= 0.6

The growth of deficit areas and shrinking of surplus areas

North

Deficit in 04/05 incl processed prod	- 600
Deficit from 08/09 incl proc products	- 1100

Central

Excess in 04/05 incl proc products	1700
Excess from 08/09 incl proc products	800

South

Deficit in 04/05 incl proc products	- 650
Deficit from 08/09 incl proc products	- 2300

East

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

EU 25

Excess in 04/05 incl proc products	1300
Deficit from 08/09 incl proc products	- 2540

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

6. CONCLUSION

Massive on-going reduction in the size of the sugar industry to improve the global efficiency of the sector

Market balance equilibrium depends on imports only into the EU deficit areas (Southern and Northern EU)



Thank you!