

The Restructuring of the European Sugar Industry



*Final Workshop – Reform of the **E**uropean **S**ugar Industry based on **P**olygeneration with the use of **E**nergy Crops (**RESIPE**)*

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26th February 2009

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1. The 2006 sugar reform

Main objectives

- **Prices:**

- Including beets in the CAP reform

- **Volumes:**

- A drastic reduction in exports

- Turning the EU from being a net exporter into a net importer to the benefit of ACP (especially LDC) countries

- **Regional allocation of sugar production :**

- Concentration of sugar production in the most efficient regions via a restructuring of the EU sugar sector to create a more efficient structure

1. The 2006 sugar reform

Main tools related with prices

- **For consumers:**
 - Two years “grace” period
 - lower prices (- 36%) in 2 following years
- **For sugar industry**
 - lower prices (- 36% in 4 years)
 - lower margin (gap between net sugar price and minimum beet price)
 - termination of safety net (intervention replaced by private storage)
- **For beet growers**
 - lower prices (- 45% in 4 years, excluding tax and levy)
 - lower direct margin per tonne of beet produced but less aggressive via a 5 years coupled payment when 50% of national quota is cut
 - lower income (partially counterbalance the beet price decrease via the *CAP decoupled* payment / hectare)

1. The 2006 sugar reform

Main tools related with volume

- **Voluntary restructuring scheme (4 years) to encourage permanent quota renunciation, financed by levies on quotas**
- **Annual withdrawals before sowing and before starting the campaign to adjust EU production to market needs and foreseen imports on a within year basis**
- **Possible final compulsory quota cut in 2010**

2. 'Reform of the reform'

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

6 million tonnes less

(absolute target to be achieved)

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)

2.'Reform of the reform'

Restructuring 2008/2009 : more time

- First step for growers with a deadline on 31 Nov' and the possibility to target up to 10% of quotas for renunciation
- Second step for sugar industry with a deadline on 31 Jan 2008 and a financial incentive if they renounce more than 13,5% of their quota (less in countries having already renounced quota)
- Third step for sugar industry with a deadline on 31 March 2008 with conditions :
 - First or second steps quota renunciations accepted
 - minimum withdrawal % in second step = 13,5% except CZ, ELL, ESP, IT, HU, PT, SK, FIN, SWE

3. First 3 years of reform

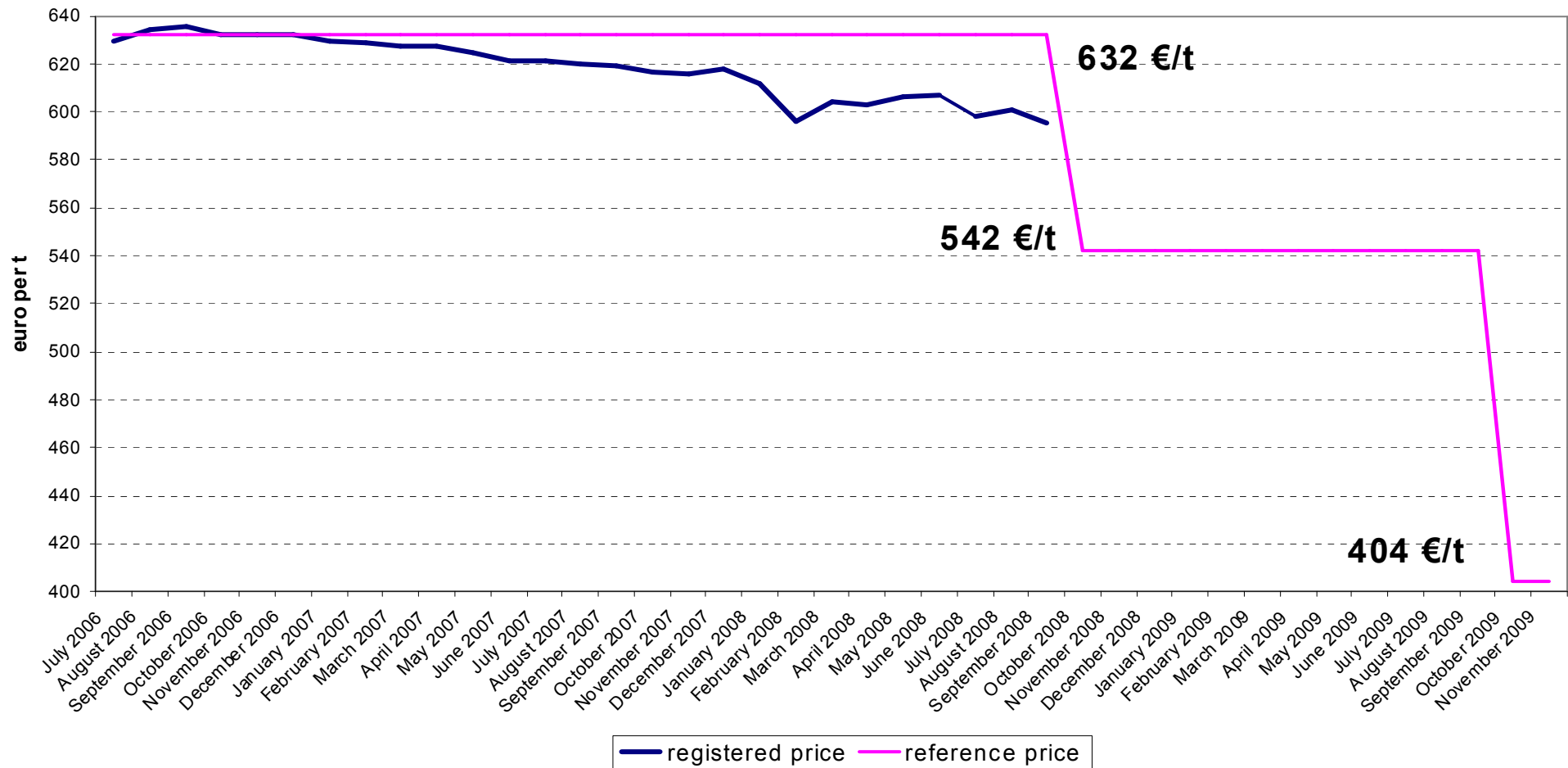
Results in terms of :

Prices' evolution

Volumes' evolution

3. What about market prices ?

Reference price and market price for white sugar prices on the EU market



3. First 3 years of reform

What about volumes' renunciation ?

Overview by product (*)

- Sugar : 5 230 330.9 t
- Isoglucose : 222 316.3 t
- Inulin Syrup : 320 716.8 t

- TOTAL(*) : 5 773 364.0 t

(*) provisional status on 31 January 2009

3. First 3 years of reform

What about volumes' renunciation ?

Overview by Marketing Year (*)

- 2006/2007 : 1 469 612.5 t
- 2007/2008 : 708 767.1 t
- 2008/2009 : 3 333 794.6 t
- 2009/2010(*) : 261 189.8 t

- TOTAL(*) : 5 773 364.0 t

(*) provisional status on 31 January 2009

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

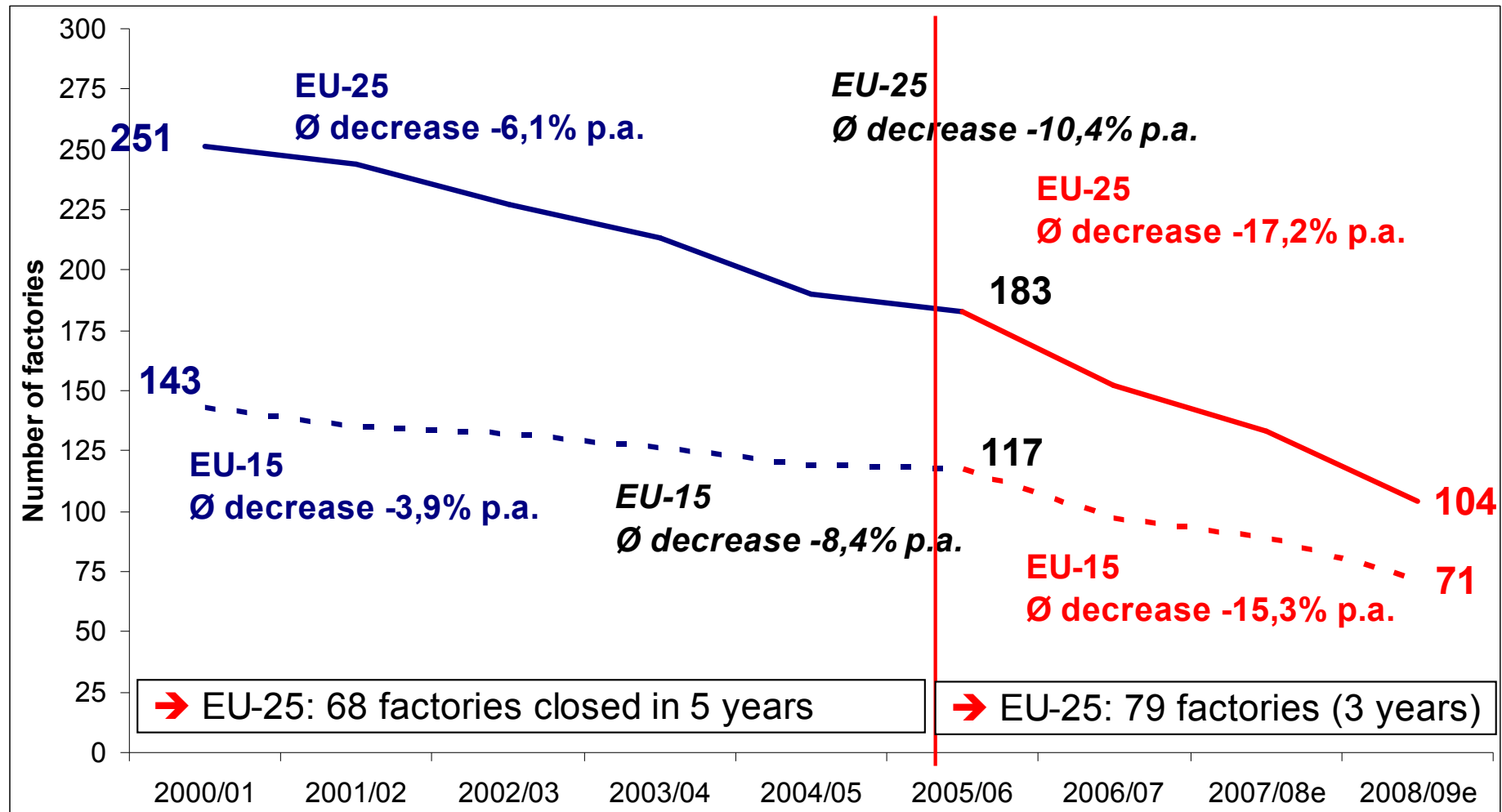
Pressure on costs of production

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 (?):
 - Bio-fuel production (sugar beet, wheat, etc.)
 - Refining raw sugar (sugar cane)

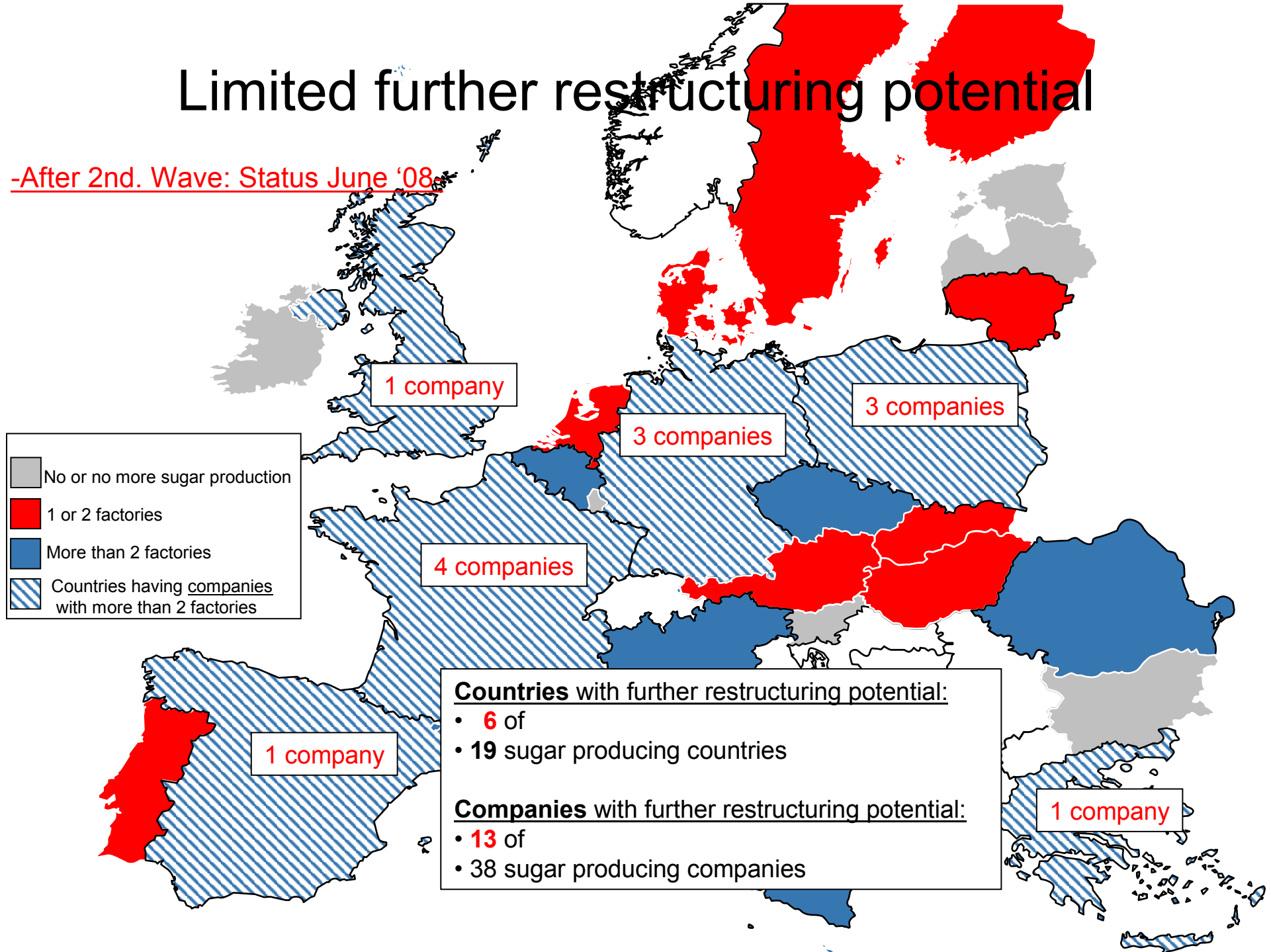
Restructuring is accelerating

-Status June '08-

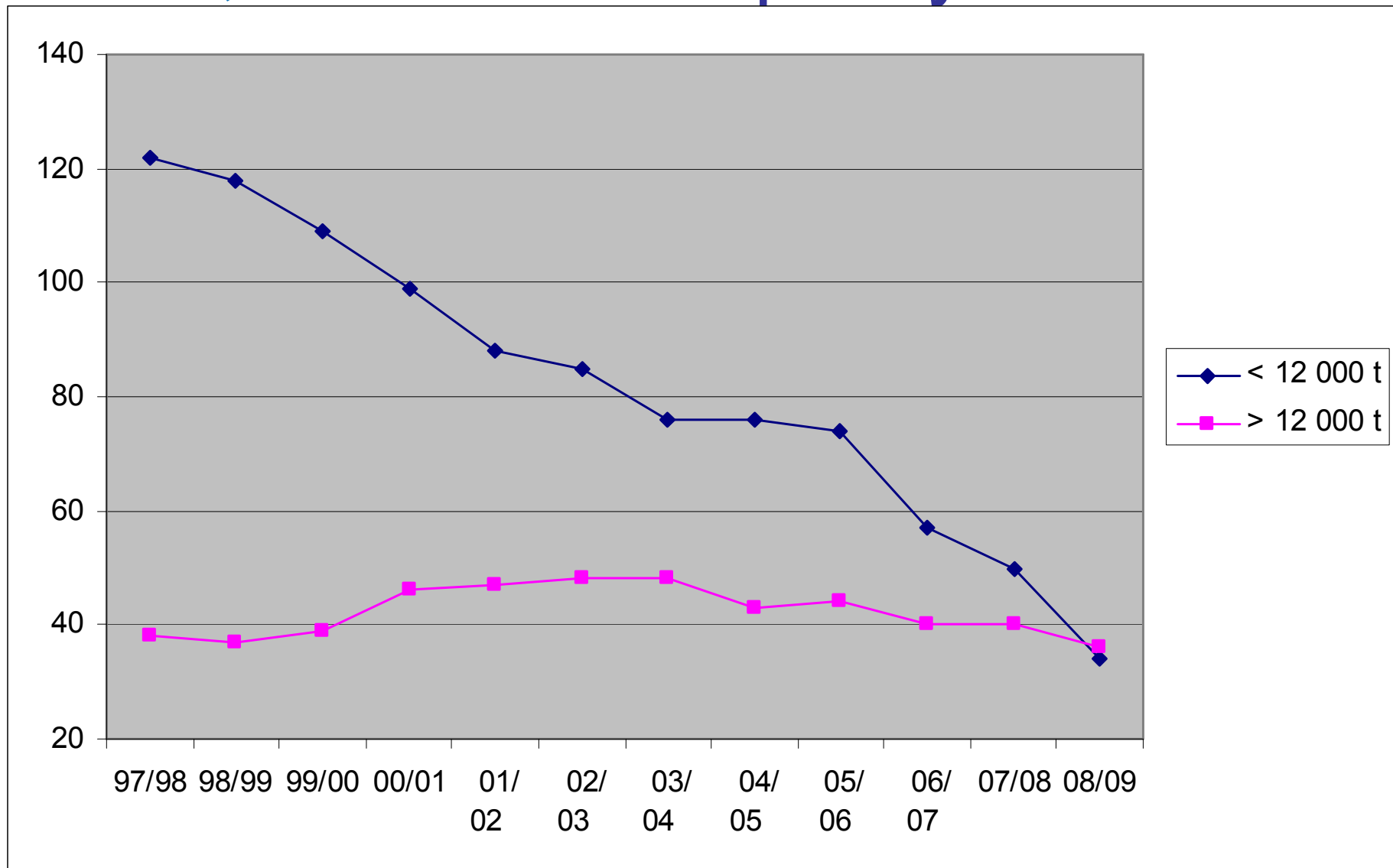


Limited further restructuring potential

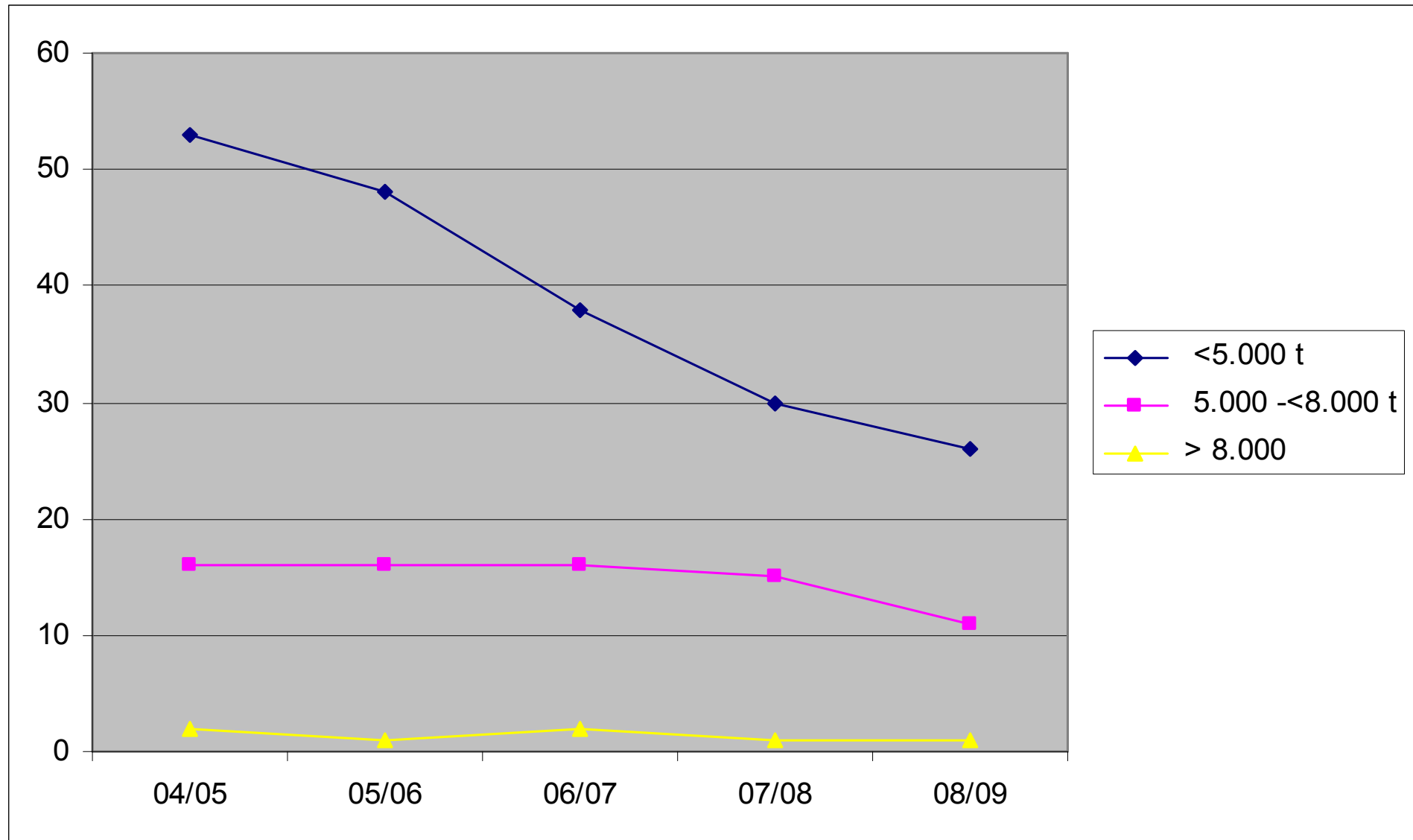
-After 2nd. Wave: Status June '08



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



Restructuring process moves also to “strong” beet regions

North		
no. of factories '05/06		14
factory closings '06/07+'07/08	-6*	-43%
announced further closings after '07/08	-1**	-7%
total closings	-7	-50%
no. of factories after closings		7

Central		
no. of factories '05/06		68
factory closings '06/07+'07/08	-5*	-7%
announced further closings after '07/08	-13**	-19%
total closings	-18	-26%
no. of factories after closings		50

East		
no. of factories '05/06		66
factory closings '06/07+'07/08	-20*	-30%
announced further closings after '07/08	-9**	-14%
total closings	-29	-44%
no. of factories after closings		37

South		
no. of factories '05/06		36
factory closings '06/07+'07/08	-17*	-47%
announced further closings after '07/08	-5**	-14%
total closings	-22	-61%
no. of factories after closings		14

Total EU		
no. of factories '05/06		184
factory closings '06/07+'07/08	-48*	-26%
announced further closings after '07/08	-28**	-15%
total closings	-76	-41%
no. of factories after closings		108

*Source: F.O.LICHTS Europäisches Zuckerjournal and Confederation Internationale Des Betteraviers Europeens

** own enquiries acc. to official publications

5. Future market balance

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	+ 0.8
Balance to be met by imports	= 3.0

5. Consequences for EU sugar market balance

Balance to be met by imports	3.0
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	= 0.3

5. Consequences for EU sugar market balance

An *additional* market of up to **1 million tonnes** of EU sugar could be lost and replaced by non-EU sugar due to:

- the increasing authorisation (under Inward Processing Regime or IPR) of non-EU sugar imports for use in processed products containing sugar for export out of the EU.
- the halt to export refunds granted to food producers who use EU sugar in their products for export out of the EU.

6. CONCLUSION

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.

An additional 1 mt could be lost in the market for export of processed products !

Balance equilibrium depends on imports only into the EU deficit areas