

The Restructuring Process of the European Sugar Industry



Sectoral Social Dialogue Committee on “Sugar”,
Plenary Meeting
Conference Centre Albert Borschette, Brussels
28 February 2008

- 1. The 2006 reform: basic features**
- 2. First 2 marketing years of reform**
- 3. Mid-term forecasts**
- 4. Economic and social impact of the reform.**
- 5. Future alternatives for EU sugar plants.**

1. The 2006 sugar reform

Main tools

- **Gradual price reduction -36% in 4 years**
- **Voluntary restructuring regime (4 years), financed by levies on quotas**
- **Withdrawal to adjust production to needs on annual basis**
- **Possible final quota cut in 2010**

2. First 2 years of the reform

Restructuring scheme

Objective : 6 million t

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

2.18 million t

2. First 2 years of the reform (Commission estimates @ Nov. 2007)

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%	10 000	147 299	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%

3. Adjustment of Regulations (27 October 2007)

Restructuring 2008/2009

- Quota renunciations in two phases
(Article 4(1bis) of Regulation 320/2006)
 - First round : deadline 31 Jan 2008
 - Second round : deadline 31 March 2008
under following conditions :
 - First round quota renunciations accepted
 - minimum withdrawal % in first round.
 - Minimum % = 13,5%
except CZ, ELL, ESP, IT, HU, PT, SK, FIN, SWE
(annex of Regulation 290/2007)

Result of the first wave

- Sugar undertakings renounced a total of 2.543 M tonnes of quota sugar by January 2008 (including 0.132 to be done in 09/10).
- Isoglucose undertakings renounced a total of 0.061 M tonnes of quota isoglucose by January 2008.

Commission's press release on second wave

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' decision in the second step for 2008/09. ...

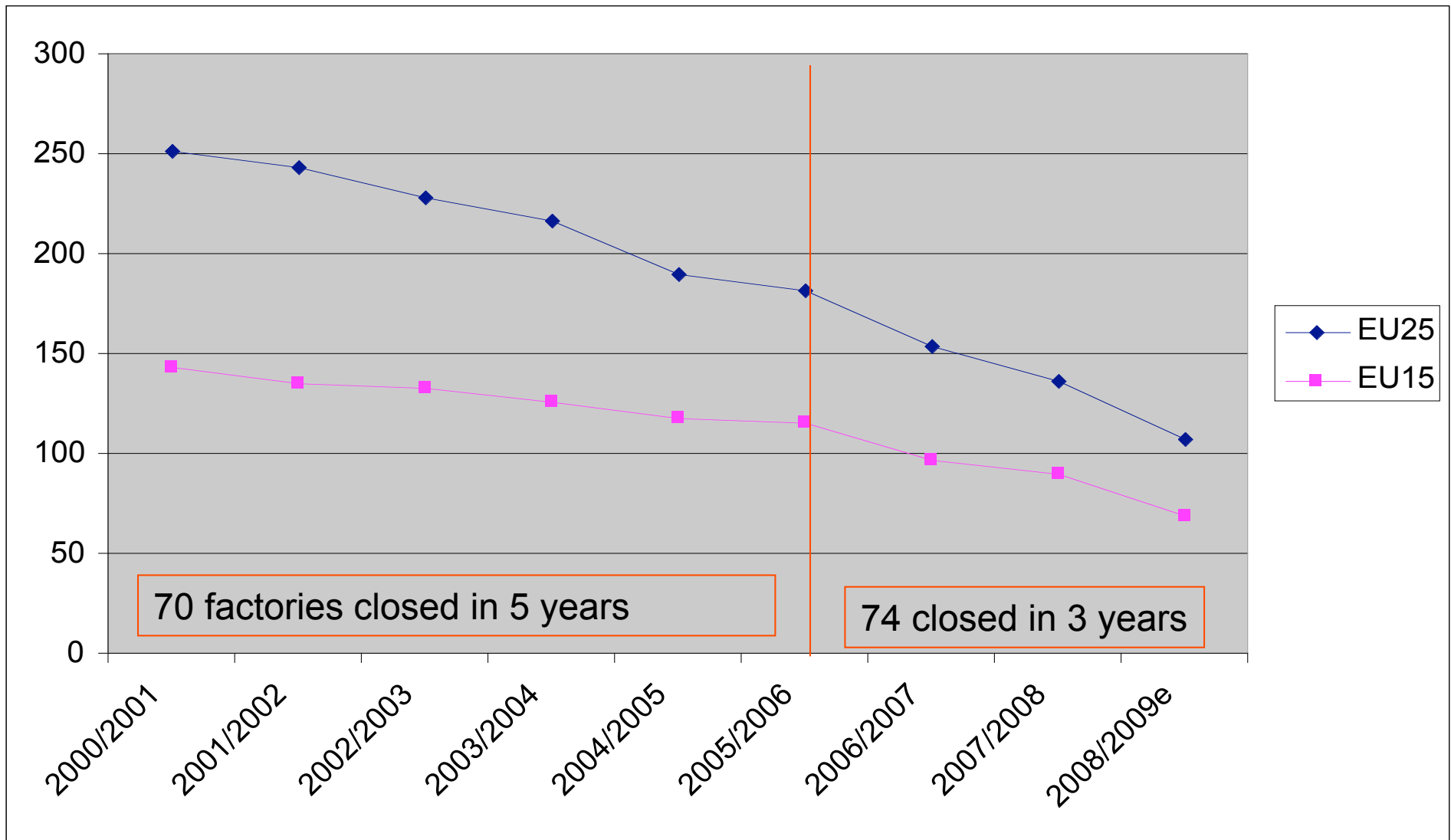
... If, by 2010, insufficient quota has been renounced within the restructuring scheme, the Commission is mandated to make compulsory quota cuts, with no financial compensation. Based on the 4.84 millions tonnes of renunciations at this stage, the quantity to be cut in 2010 would be 1.16 million tonnes.

4. Economic and social impact of the reform.

Alternatives left to sugar producers?

- Reduction of variable costs
- Reduction of administrative costs (merger of local HQs, etc.)
- Increased use of fixed capital/assets:
 - Lower the number and increase the size of production units (= increased length of production campaign, increased transport distances for beet).
 - Additional activities:
 - Refining raw sugar (sugar cane).
 - Bio-fuel production (sugar beet, wheat, etc.)

Restructuring is accelerating



Restructuring process moves also to “strong” beet regions

North		
no. of factories '05/06		14
factory closings '06/07+'07/08	-6*	-43%
<u>announced further closings after '07/08</u>	<u>-1**</u>	<u>-7%</u>
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%
<u>announced further closings after '07/08</u>	<u>-13**</u>	<u>-19%</u>
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%
<u>announced further closings after '07/08</u>	<u>-9**</u>	<u>-14%</u>
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%
<u>announced further closings after '07/08</u>	<u>-5**</u>	<u>-14%</u>
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%
<u>announced further closings after '07/08</u>	<u>-28**</u>	<u>-15%</u>
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.

Consequences for the EU sugar market balance

EU sugar & isoglucose consumption	16.5
Import of sugar in processed products	- 0.6
Sugar & isoglucose production <i>quota after first wave minus 1.16</i>	- 13.8
Export of sugar and sugar in processed products	+ 0.8
Necessity for Import of sugar	= 2.9

Consequences for the EU sugar market balance

Necessity for Import of sugar	2.9
Import of white sugar from Balkans	- 0.4
Import of raw sugar MFN (Bulg, Rom)	- 0.6
Traditional Supply Needs for refiners coming from EPAs (on top of MFN)	- 1.7
Necessity of additional white sugar and raw coming from EPAs	= 0.2

CONCLUSION

Difference between the political objective of 3.5 million tonnes coming from EPAs and the needs = **1.6 mio T**

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