

SECTORIAL SOCIAL DIALOGUE
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IMPACT OF THE EUROPEAN SUGAR REFORM

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www.cefs.org

THE EUROPEAN SUGAR REFORM

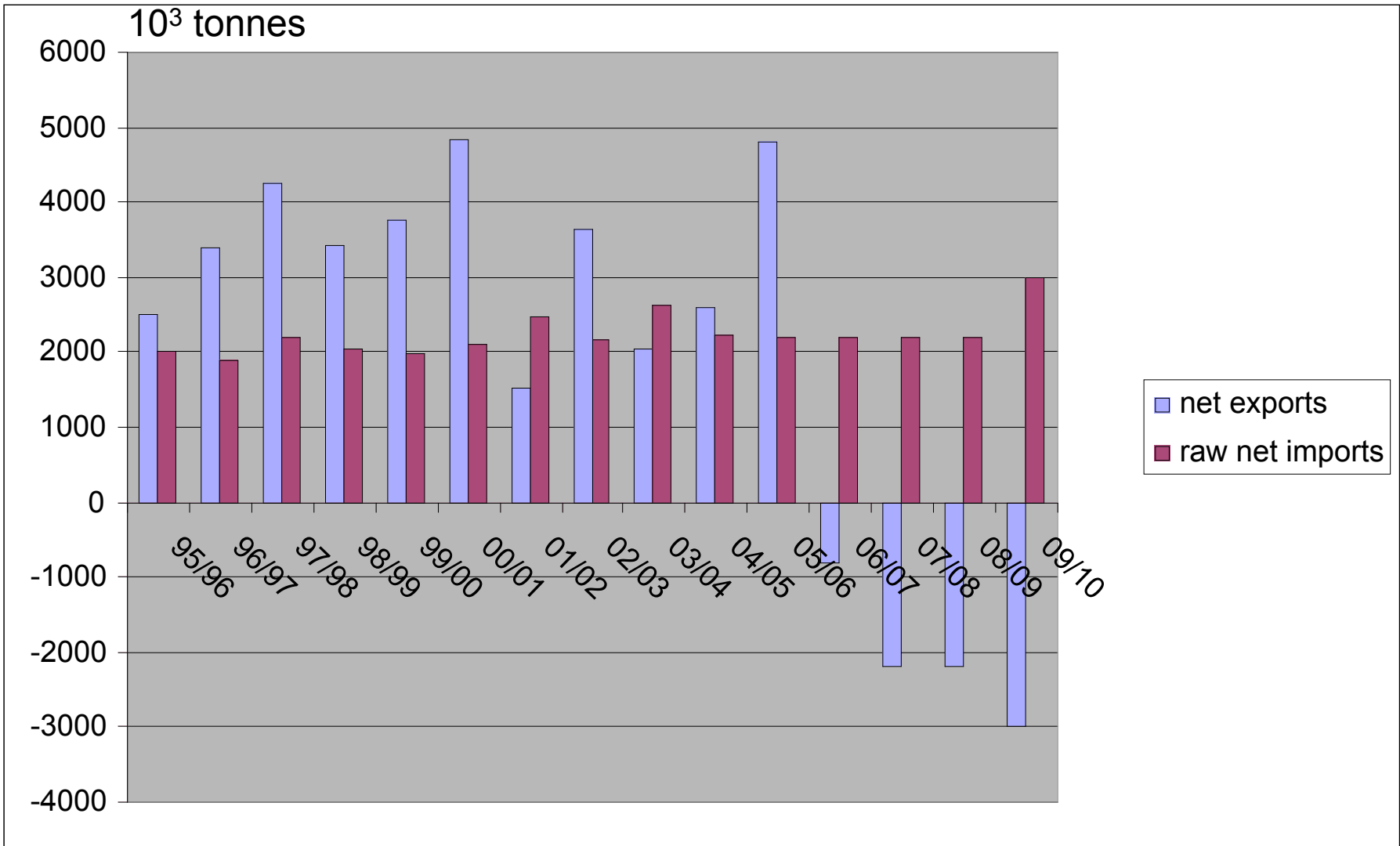
Main decisions

- A 45% basic beet price cut with fully decoupled income compensation (after 5 transition years with some coupled payments)
- A 36% sugar price cut
- A production charge of €12/t, split 50/50 with growers instead of the 60/40 split with the current production levy
- A 4-year industrial restructuring program for the sugar industry targeted to eliminate a gross 6 mt of quota (a 34% cut)
- Stricter rules on « out-of-quota » production

THE EUROPEAN SUGAR REFORM

Consequences

From net exporter to net importer



THE PROFILE OF COUNTRIES EXPORTING TO THE EU CHANGES

- Currently 15 ACP countries supply the EU under the Sugar Protocol. Of these the largest suppliers are Mauritius, Fiji, Guyana and Jamaica. How many ACP will survive the 36% cut in the EU guaranteed price for raw sugar?
- Among the 27 LDC's producing sugar how many will be able to take advantage of their free access to the EU ? (The largest potential exporters are Mozambique and Sudan).

A MAJOR RESTRUCTURING OF THE EUROPEAN SUGAR INDUSTRY

- The reform will cut the institutional processing margin by 20%, necessitating a drastic cut in fixed costs

CUT IN PROCESSING MARGINS

- The current institutional processing margin = guaranteed price (€632/t) minus the sugar in beet price (€367/t), minus the levy to finance the regime (€22/t as an average) = €243/t
- The future institutional processing margin = reference price (€404/t) minus the sugar in beet price (€202/t), minus levy (€6/t) = €196/t

DRASTIC CUT IN FIX COSTS MEANS LESS FACTORIES FOR THE SAME PRODUCTION

Already last year

- in NL CSM closed Breda and COSUN
Puttershoek
- in Ireland GREENCORE closed CarlowIn
2006/2007

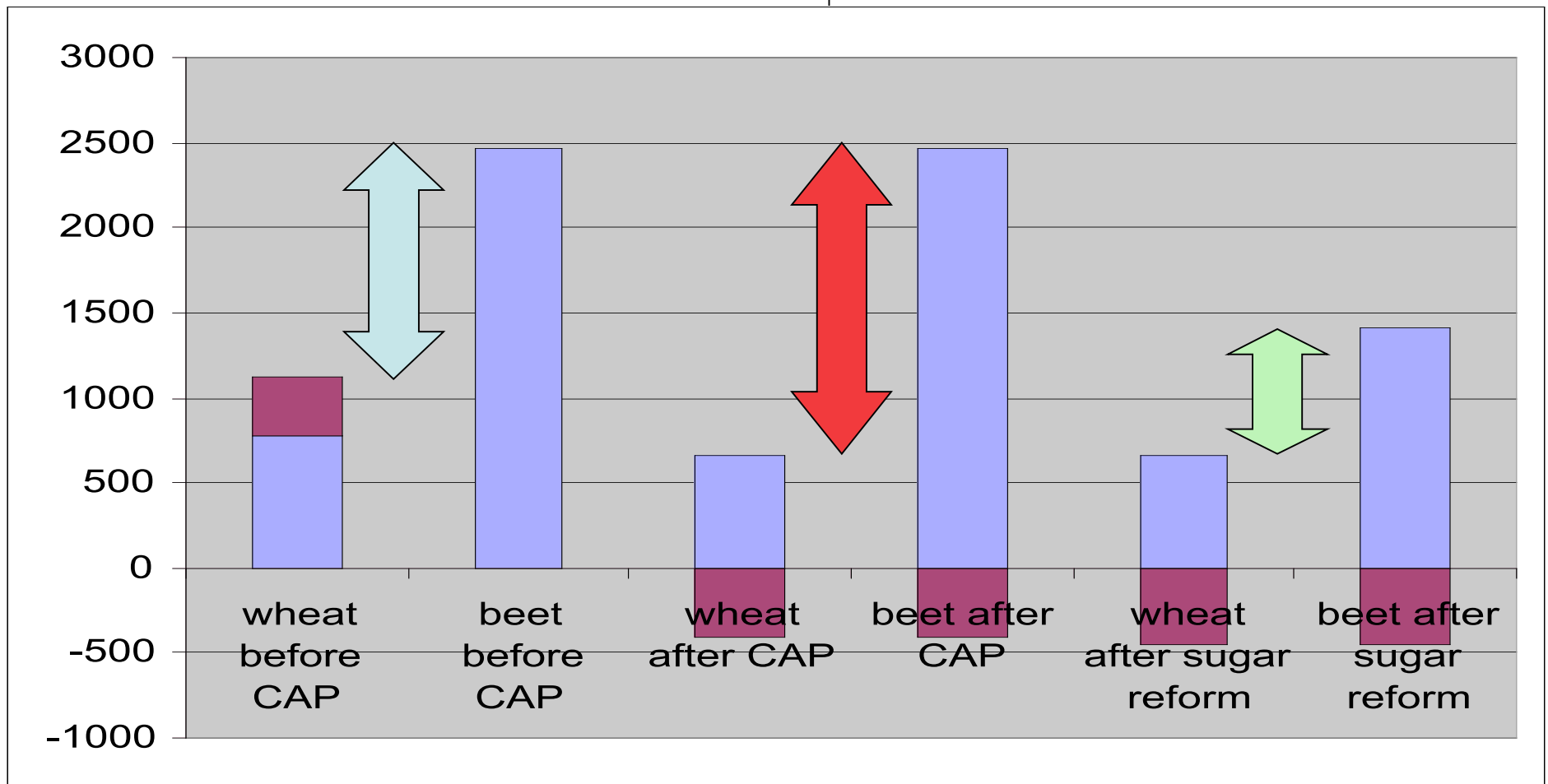
DRASTIC CUT IN FIX COSTS MEANS LESS FACTORIES FOR THE SAME PRODUCTION

For 2006/2007 were announced the closure of :

- Assens in Denmark, Köpingsbro in Sweden and Salo in Finland by Danisco,
- Hohenau in Austria and Rimavska Sobota in Slovakia by Agrana.
- Furnes in Belgium by Iscal
- Wierthe in Germany by Nordzucker
- Unislaw and Dobrem in Poland by BSO

REFORM REVERSES THE CAP REFORM'S IMPACT WHICH INCREASED THE ATTRACTIVENESS OF BEET

Euros/ha



A MAJOR RESTRUCTURING OF THE EUROPEAN SUGAR INDUSTRY

- Some growers are considering the beet crop as no longer attractive enough and will stop to supply their sugar factory
- Some sugar companies will not be able to face the industrial margin cut and will sell their quota to the fund
- In any case in 2010 a result of the reduction in exports and the growth in imports, total EU sugar production will have to have been decreased by 30% – 35% from 20 to 13 - 14 mt

A MAJOR RESTRUCTURING OF THE EUROPEAN SUGAR INDUSTRY

- Already some sugar companies are announcing that they will sell some quota sugar to the fund due to a lack of beets (exemple in Spain with Ciudad Real) or because the business becomes not remunerative enough for them (exemple the sale of quota in Finland)
- Very few decisions have been announced.
- The vast majority of quta sales will intervene in 2007/2008

AN EXPECTED CONCENTRATION OF THE EU SUGAR INDUSTRY

- Currently there are 39 sugar groups (including refiners) in 21 EU countries with 190 factories
- The 10 largest groups (2 UK, 1 Danish, 1 French, 3 German, 1 Italian, 1 Polish and 1 Spanish) cover three quarters of production
- Three countries (Germany, France and Poland) produce around half of EU sugar production - including cane refining

TOMORROW ?

- > 40% of factories will close
- The number of EU countries producing sugar will decrease
- There will be fewer independent sugar companies and more cooperatives, as has happened in the USA
- The 10 largest groups will produce more than 75% of EU production

RESULTING IN A MORE EFFICIENT SUGAR INDUSTRY

- Campaign lengths will be longer than the current 90 days to lower fixed costs
- Fewer people will be employed in the industry
- Total processing costs will be lower
- Beet growing costs will drop as production specializes
- Lower costs to transport beets to the factories

GLOBALISATION

- The EU sugar industry is involved in the globalisation of the world sugar industry in Australia, Brazil, China and the Congo.
- The most recent investment took place in Mozambique.
- This phenomenon will develop in the future.

THANK YOU FOR YOUR ATTENTION

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