



Unione nazionale fra gli Industriali dello Zucchero

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EU operators and Institutions towards the future challenges faced by the sector

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Agenda:

- The EU sugar sector
- The ongoing reform process and consequences
- The value of beet production: Available tools and challenges
- Conclusions

Europe's sugar sector currently and before the 2006 reform

Campaign 2005/2006 (EU 27)

- **27** member states
- **189** factories
- **50,000** permanent and seasonal workers
- **305,000** growers
- **1.823.183** ha harvested beet area
- **Nearly 20 mln t.** sugar production
- **19 mln. t.** consumption of last 10 years stable

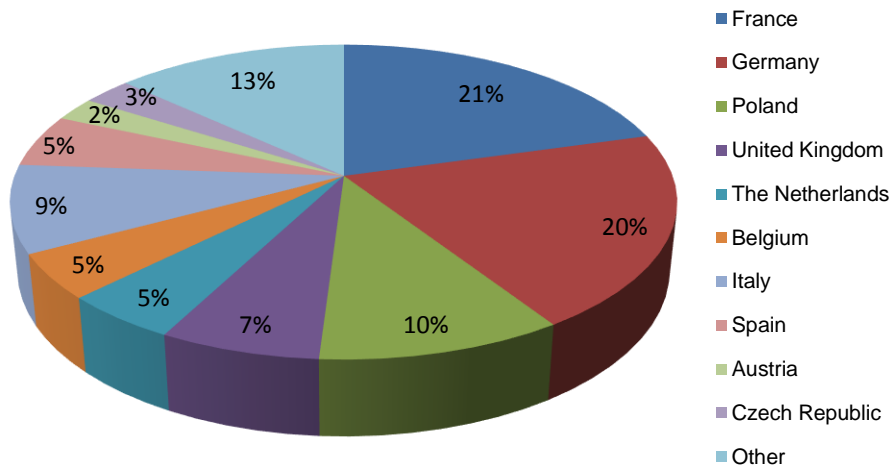
Campaign 2014/15 (EU 28)

- **23** member states
- **109** factories
- **27,500** permanent and seasonal workers
- **150,000** growers
- **1.548.757** ha harvested beet area
- **18,5 mln t.** sugar production

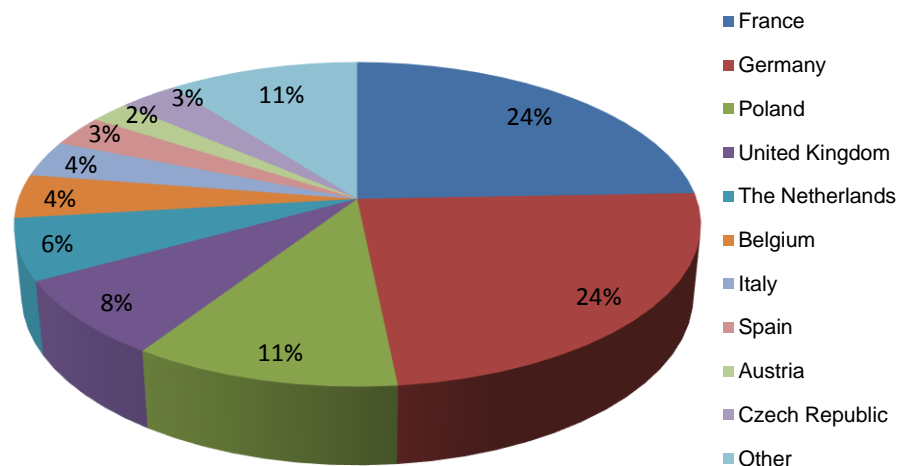


Europe's sugar sector currently and before the 2006 reform

EU sugar production per country 2005-2006



EU sugar production per country 2014-2015



Source: CEFS Statistics 2015



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Sugar plants in Italy in 2016



Italy and 2006 reform

- **15 factories** closed
- **5000** permanent and seasonal jobs lost
- **Hectares** from **230.000** to 45.000
- **Beet growers** reduced by 1/3
- **Production** reduced from 1,8 mln. to 0,5 mln
- **Consumption** stable at 1,7 mln

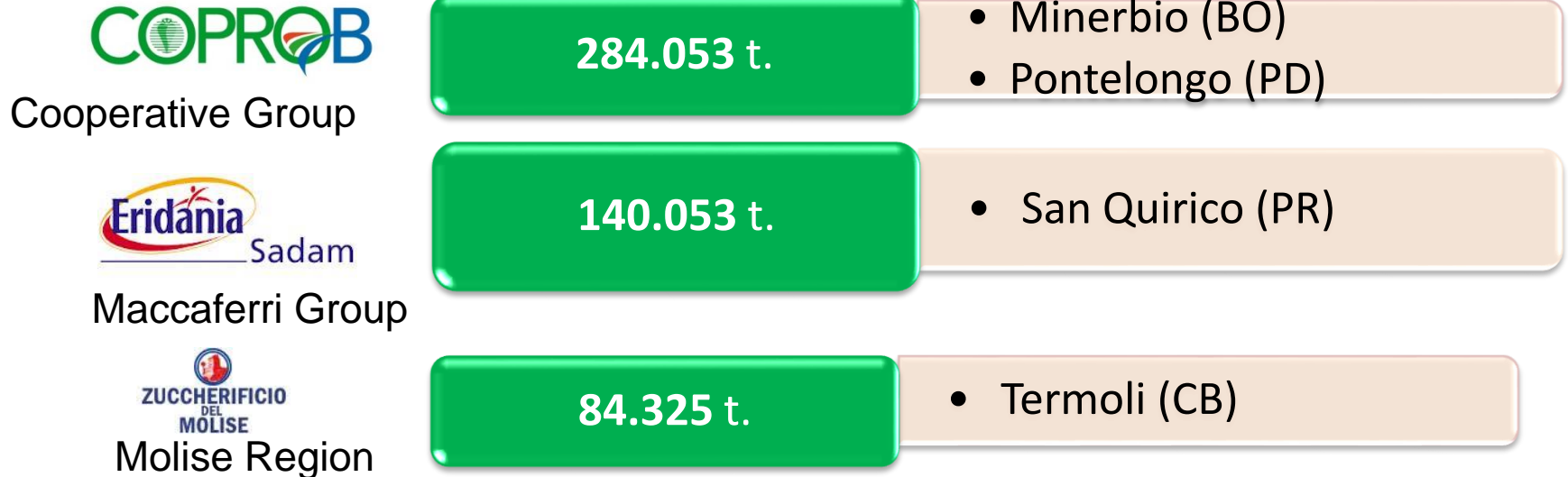
Source: CEFS Statistics for 2005/06 to 2014/15

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The Italian sugar sector

- **1,700** mln. t of **consumption** (75% sold to industry)
- **508.378** t. of national **production** quota split among:



SFIR Raffineria di Brindisi: **1 refinery** built in 2010 – Joint Partnership American Sugar Refiners and Cristal Union

Investments in Italy after the 2006 reform

- From **19 to 4** factories
- Nearly **200 million euro of investments** in the 3 factories of northern Italy with the aim of increasing production capacity, reduce energy consumption and manage the market
- Today our factories are much **more efficient and competitive** than 2006

	Investments (Million euros)	Production capacity Beets ton/day		Production capacity Sugar ton/day		Production quota tonnes
		From	To	From	To	
Minerbio	75	From 11.000	To 15.000	From 1.000	To 1.300	140.000
Pontelongo	65	From 13.000	To 16.000	From 1.400	To 1.800	150.000
San Quirico	55	From 11.000	To 16.000	From 1.100	To 1.550	140.000





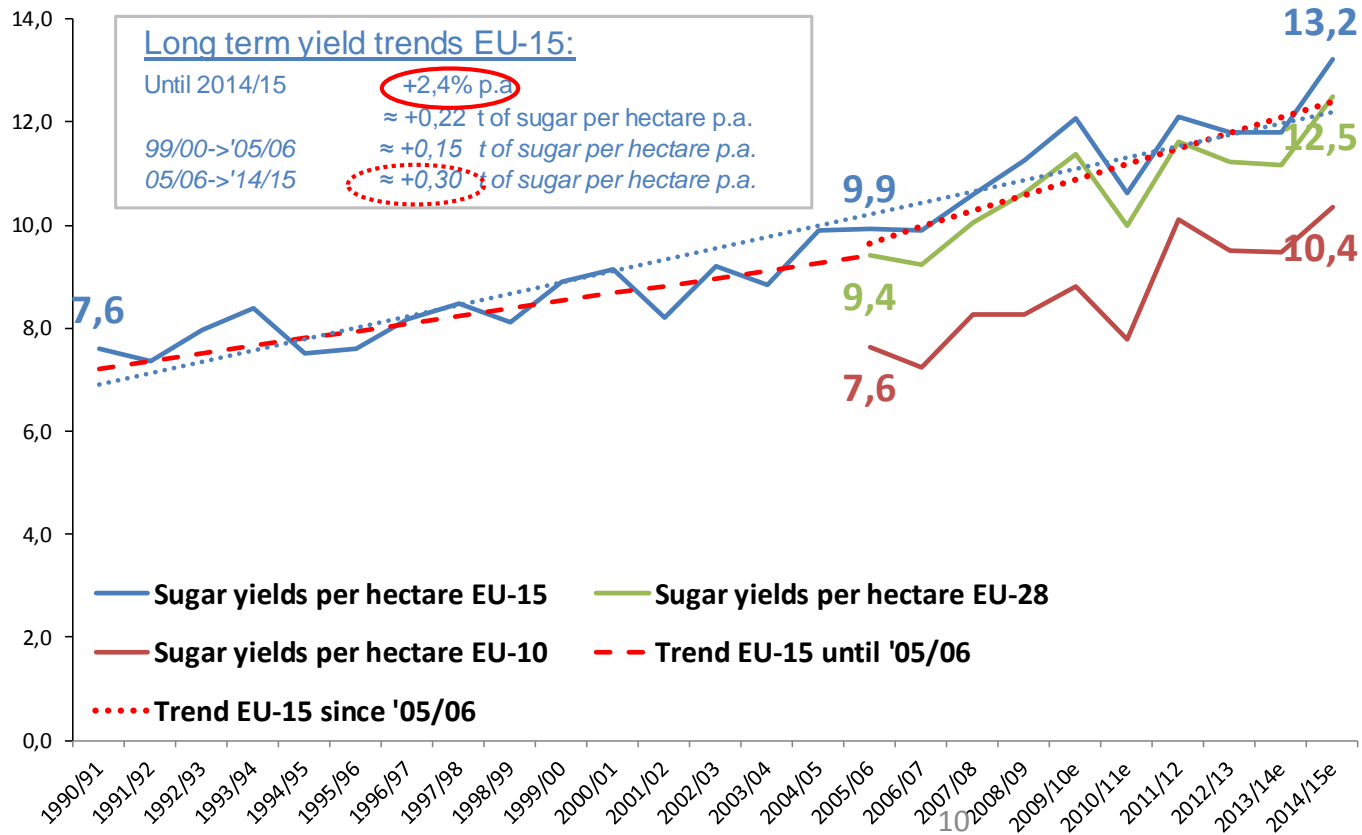
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The reforming process of the UE beet sugar sector and consequences – Key messages



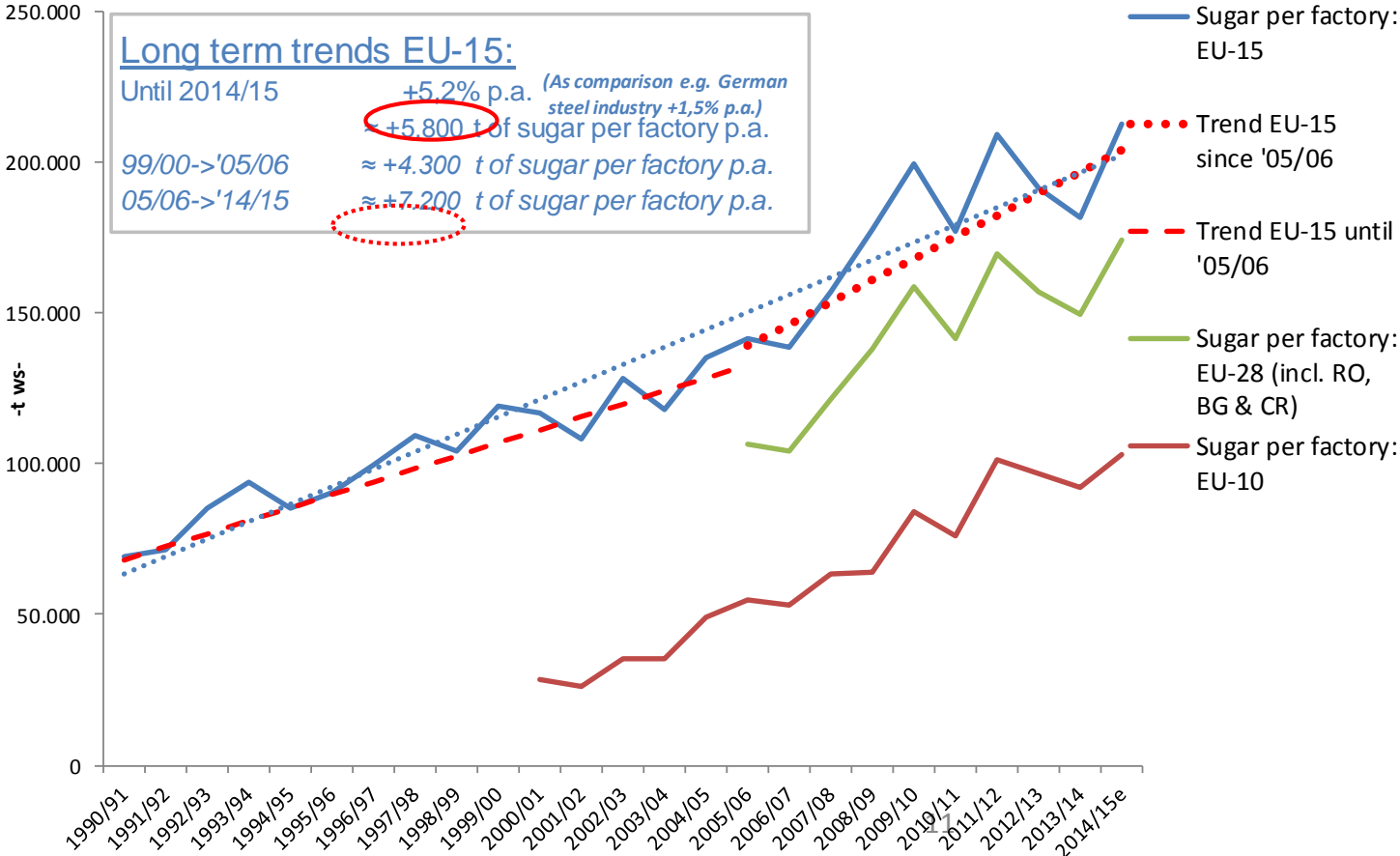
Long Term Developments (EU-28): Sugar Yields



*Source: CEFS Statistics; in case of missing information e.g. for Croatia (no EU member at that time) separate sources (Bartens, "Zuckerwirtschaft Europa") or own estimations used



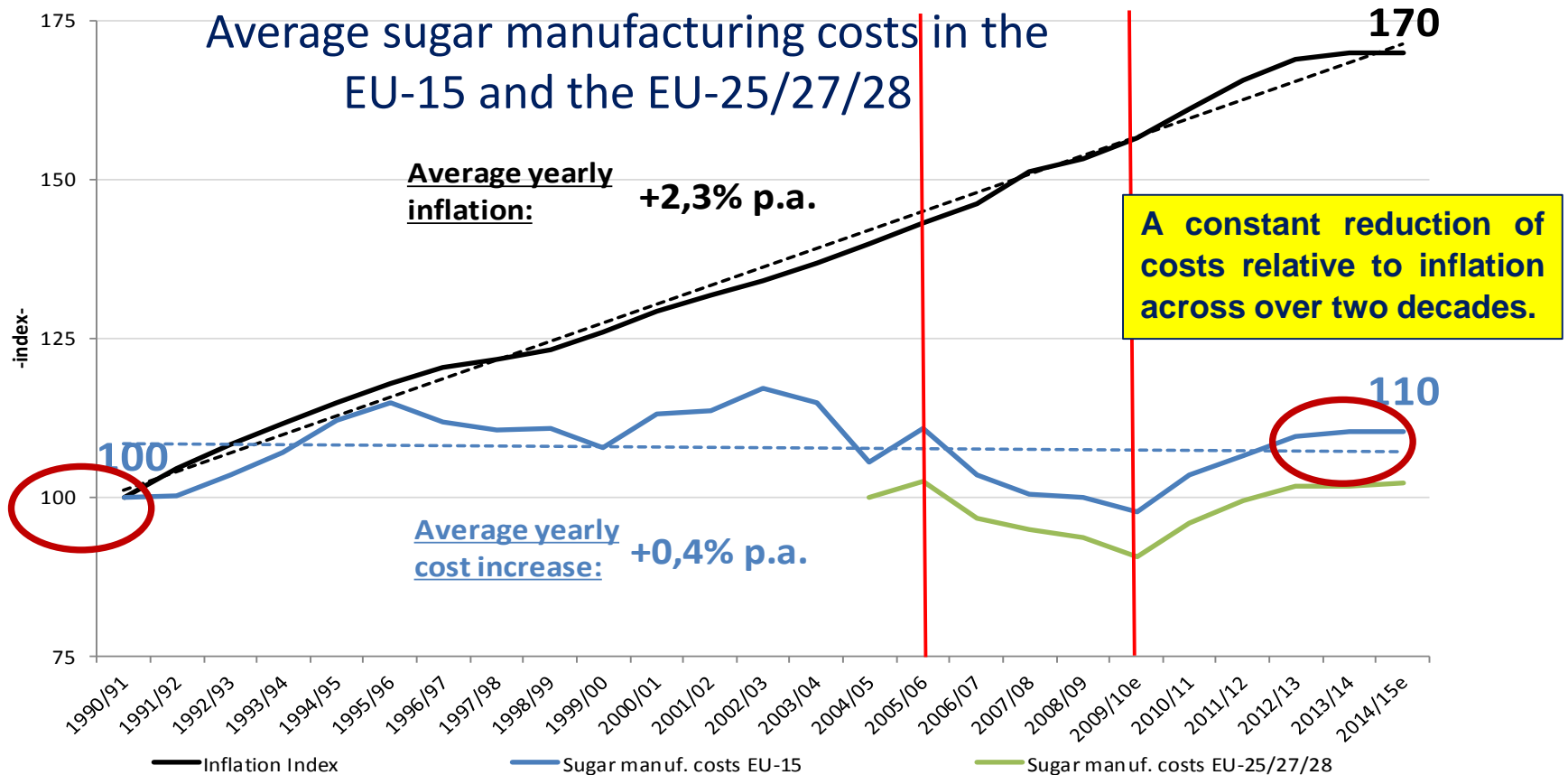
Long Term Developments (EU-28): Sugar per Factory



*Source: Sugar: "CEFS Sugar Statistics" and production statistics EU-Commission; Steel: "Wirtschaftsvereinigung Stahl" & own research

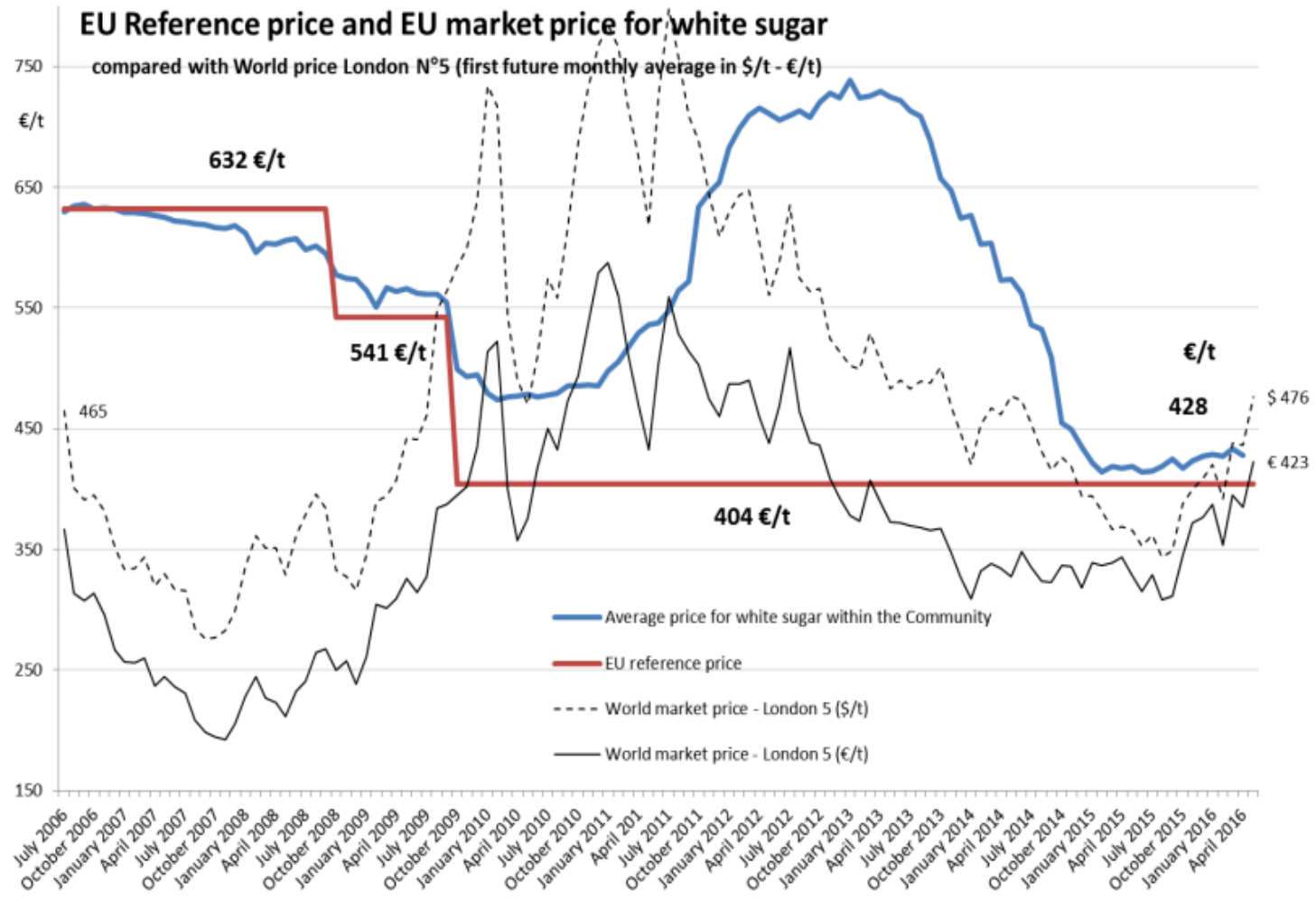


The EU sugar industry has steadily managed to increase its competitiveness by keeping production costs down

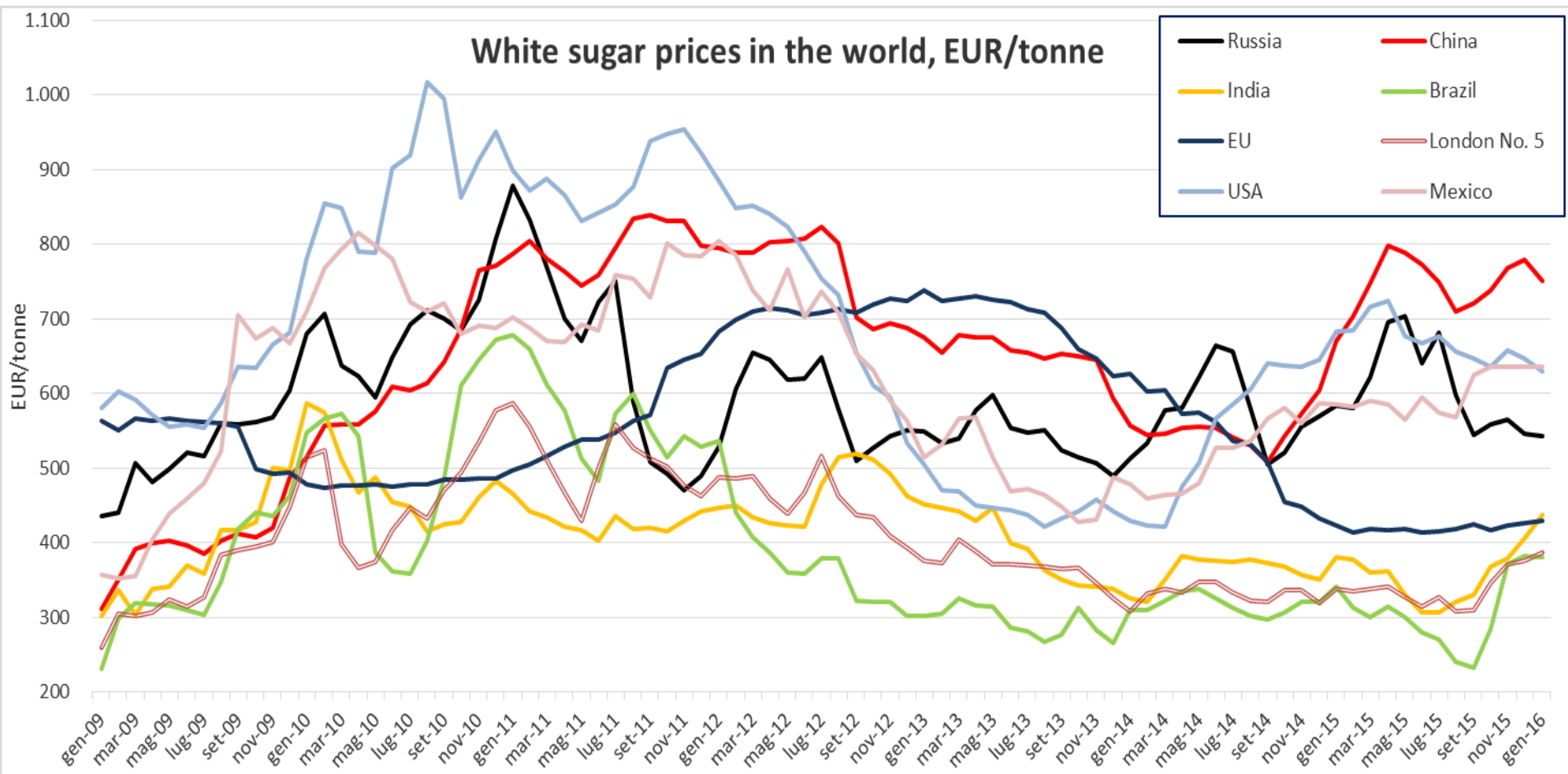


*Source: Inflation acc. "Eurostat" and costs acc. SURVEY ON MANUFACTURING EXPENSES acc. PWC reports

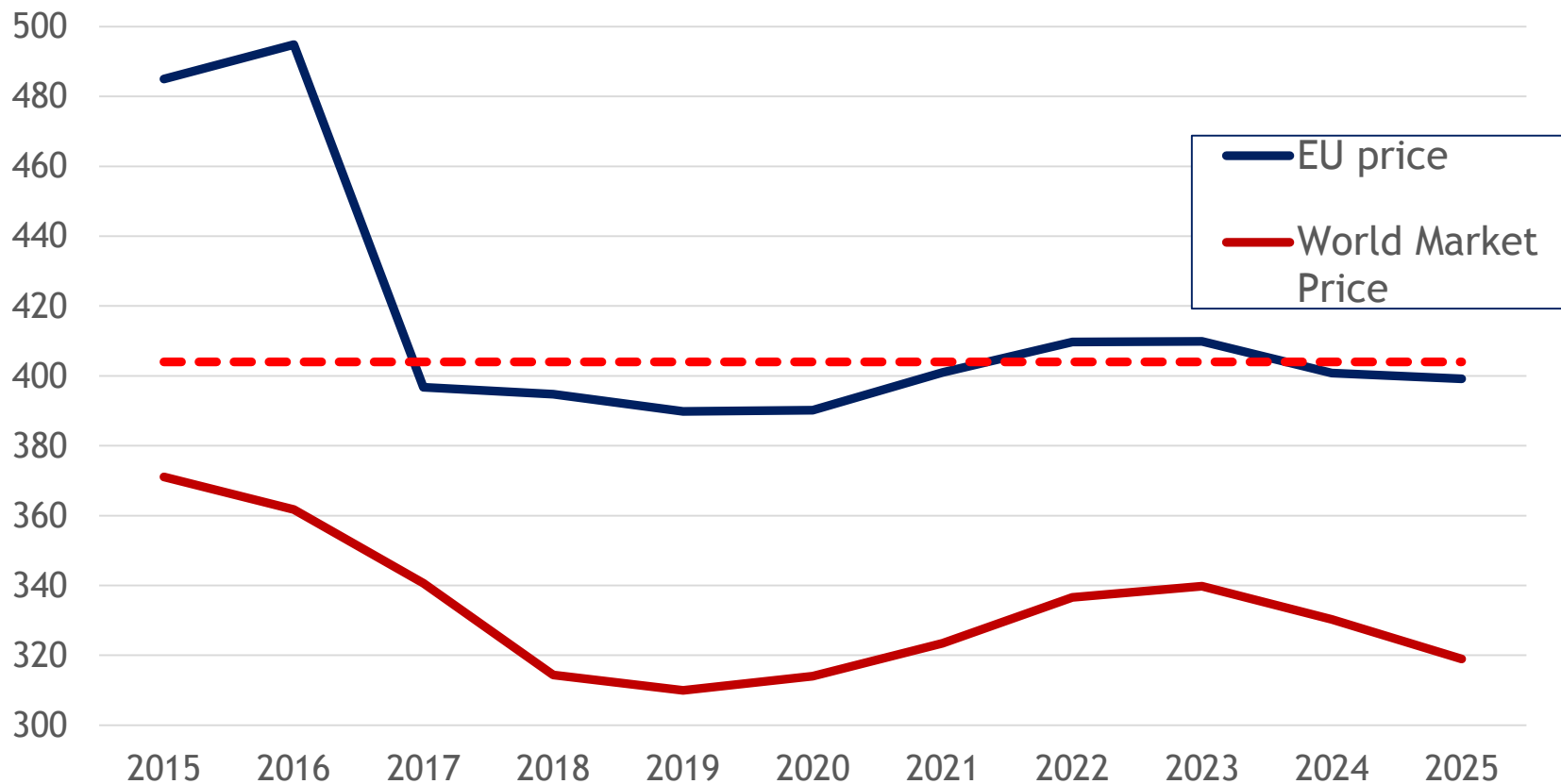
It is foreseen that the EU sugar price will align with the international market (in part already on going)



A comparison between EU and other domestic sugar prices



But the European Commission expects prices to stay low for the foreseeable future



Source: European Commission medium-term prospects for agricultural markets, 2015-25



The impact of low sugar prices: already visible in the margins of the major sugar producers



- **Sugar revenues down 11.5%** in 2015/16 vs. 2014/15.
- Forecast operating loss of EUR 79 million
- Number of persons employed by Südzucker Group down 4.3 %



- **Sugar revenues down 9%** in 2015 vs. 2016.



- **Sugar turnover in Europe down 6%** in 2015/16 vs. 2014/15
- EBITDA down 29%





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Some considerations for the EU as a whole

- Sugar beet is an important element of appropriate crop rotation. It has a beneficial effect on the environment by increasing the diversity of crop production and maintaining agricultural land in good condition (i.e. cereals, have 20-25% increase of productivity following rotation with sugar beet cultivation) (*Source: CEFS/CIBE*)
- Sugar beet is more energy efficient and has better GHG (greenhouse gases) performance compared to maize and tomato. It captures 25 times more CO₂ than it emits and produces 10 times more energy (*Source: Italian Research Institute for Sugar Beet (BETA Italia) study on Po Valley*).



Some considerations for the EU as a whole

- The return generated by a sugar factory in Italy amounts to nearly 100 mln euros each year

Indotto economico annuo
(in termini di reddito generato, milioni di €)



196,6 milioni di €

Fonte: rielaborazione The European House – Ambrosetti su dati di contabilità analitica COPROB, 2015



Some considerations for the EU as a whole

- Sugar sector major contributor to EU Budget until 1.10.2017
- Over 150 million euros per year due to payment by sugar beet growers and industry of production charge (only sector in the EU). As a total the UE has contributed in the last 6 years since the closing of the restructuring by approximately 800 million euros
- The restructuring fund of 2006 was closed with a remaining of more than 700 million euros



Some considerations for the EU as a whole

- The EU will have one of the most liberal markets (no quota, no minimum beet price)
- A few measures will continue (Voluntary Coupled Support as per other sectors, producer cooperation, private storage, measures against market disturbance, import duties)



Lessons to be learnt (1): from the EU

Milk Sector:

- Removal of milk production quotas from 1 April 2015
- Historically low skimmed milk powder prices → general crisis
- September 2015: 500 million euros support package... little effect
- July 2016: new Agri Council of Ministers to decide other intervention.....

For the EU sugar sector, from January 2013 to January 2015 EU reported sugar prices had a drop of 42% (EC Price Reporting Scheme). No proposals by the European Commission to alleviate the situation in a context of uncertainties coming from end of quota.



Lessons to be learnt (2): Sugar in US/Mexico

- U.S.- Mexican free trade in sugar began in 2008
- In 2012/13, Mexican exports to U.S. = 1 million tons more than U.S. market could accommodate. *Sugar prices from over 900 €/t of December 2011 went down to approximately 420 €/t in summer 2013*
- In 2012/13 the USDA intervened under the sugar loan program because market prices were lower than the price guaranteed by the government, selling to ethanol producers, sugar in excess.
- In December 2014, U.S. & Mexican governments set agreement to limit imports and fix reference price. *Today sugar prices are back in the range of 700 €/t (i.e. 629 €/t in January 2016)*



The EU beet sugar industry towards 2017

- Further investments
- Costs cut in all the parts of the process to gain more efficiency and improve competitiveness
- Concentration on core business or diversification (renewable energies)
- Consolidation of the position on the market, also through commercial partnerships



The EU beet sugar industry towards 2017

- Strengthening the remuneration of beet growing to secure production in areas where can be less competitive: long term contracts, Voluntary Coupled Support according to art. 52 Reg. 1307/2013
- 11 Member States have decided to grant coupled support on sugar giving that beet “*is particularly important for economic/social/environmental reasons*”. These may only be granted to the extent necessary to create an incentive to maintain current levels of production





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Conclusions 1/

- The value of sugar beet implies the necessity of supporting its production in a way to assure a certain level of self-sufficiency of this strategic commodity
- Sugar remains the primary sweetener in households and the food industry
- The EU and Member States need to safeguard the whole sugar chain ensuring agriculture productivity, innovation and maintaining employment in rural areas

Conclusions 2/

- Current EU white sugar prices are below the average production costs of EU sugar producers
- The price will be influenced by many factors: quantities available on the market, exchange rates, convenience to export, level of imports. All these factors are influenced by different issues
- We are obviously worried about both the actual situation and the perspectives
- The sugar sector is not flexible: the high level of investments requested oblige companies to maintain a certain level of profit; without this, further closures are unavoidable, and everybody knows that once a plant is closed, there are no chances to re-open it, losing value for all the area where the sugar plant operates



Conclusions 3/

- Experience clearly demonstrates how the current EU CAP measures are not adequate nor timely enough to face market crisis
- The EP Committee of Agriculture already made a proposal to help alleviate possible consequences for operators, agriculture and employment especially in less competitive areas in a way to have a balanced transition towards the end of the quotas (i.e restructuring support as in 2006).
- Need to consider WTO compatible measures to use during possible crisis, e.g. excess production for bioethanol, market surveillance....



Grazie



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