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# Evaluating opportunities for Latvian sugar sector under the Reformed EU Sugar policy conditions

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“Influence of EU support on structural changes in agricultural and food  
sector”

CEEC Agri Policy

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# Why this study was carried out?

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- EU Council 2006 decision about the reform of Sugar sector, providing
  - cut in sugar prices
  - support for sector restructuring to decrease sugar production volumes in EU market area
- Continuing discussion :
  - between sugarbeet and sugar producers about the beet supply contracts for 2007 and
  - with the MoA about the possibilities to introduce additional public support measure to encourage beet supplies for lowered prices
- which indicated
  - there is no joint opinion about the future prospects for the sector development in Latvia
  - because of that the business development decision making process is frozen

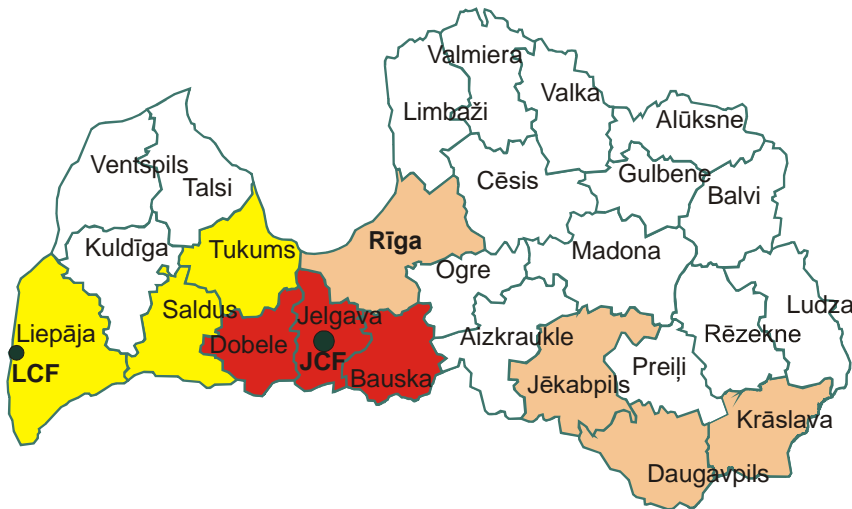
# Objectives and tasks for the study

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- Objective of the study
  - To evaluate,
    - weather is there a possibility for sustainable operation of beet sugar production in Latvia under the recently reformed EU sugar policy
- Tasks:
  - to define and analyse sector development scenarios
  - to evaluate the impact of the reform on the beet growing farms incomes and the industry profitability ;
  - to elaborate the model to evaluate the total feasibility of the whole beet sugar production chain in Latvia



# How did the Latvian sugar sector look like?



- Area under sugarbeets -  
11,4 thsd. ha (< 0,7% of UAA)
- Average yield  
38,5 t/ha . (EU aver. 58 t/ha)
- Beet production
  - 91% located in 3 districts
  - 96% in farms with ESU > 8
- Processing
  - 2 factories with production quota 66,5 thsd. t (0,38% from EU total consumption)

# Factors analysed

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- Beet price – minimal price decreased;
- Sugar market price – reference price decreased substantially;
- Separate sugar payment – different options for application;
- Sugar production quota will not be decreased;
- Sugar production levy– will be shared equally between the both stages of the chain



# Scenarios developed for the analyses

	Scenario	Sugar price	
<b>I</b>	Base scenario – “No major changes”	optimistic	deliberate
<b>II</b>	Optimisation of beet production and strengthened vertical integration		
<b>III</b>	II + modernisation and optimisation of industry		
<b>-</b>	Full restructuring of the sector		



# I scenario Base scenario:

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- The both factories continue as previously
- Beet production structures and levels remain unchanged
- Beet prices – at minimum price level
- separate payment as decoupled and historic agreed for 3 years according to 2006 production levels
- Structural funds support available at 25% level



## II scenario: Optimisation of beet production and strengthened vertical integration

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The previous +

- ❑ Overall beet production efficiency increases up to the level of today's most efficient
- ❑ A beet sugar production vertical integration scheme is improved (allowing to maximise chain's total profit first and then sharing among the production stages)





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# III scenario II + modernisation and optimisation of industry

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Assumptions for II scenario +

- A new modern factory is set up instead of previous two ones



# Methods used

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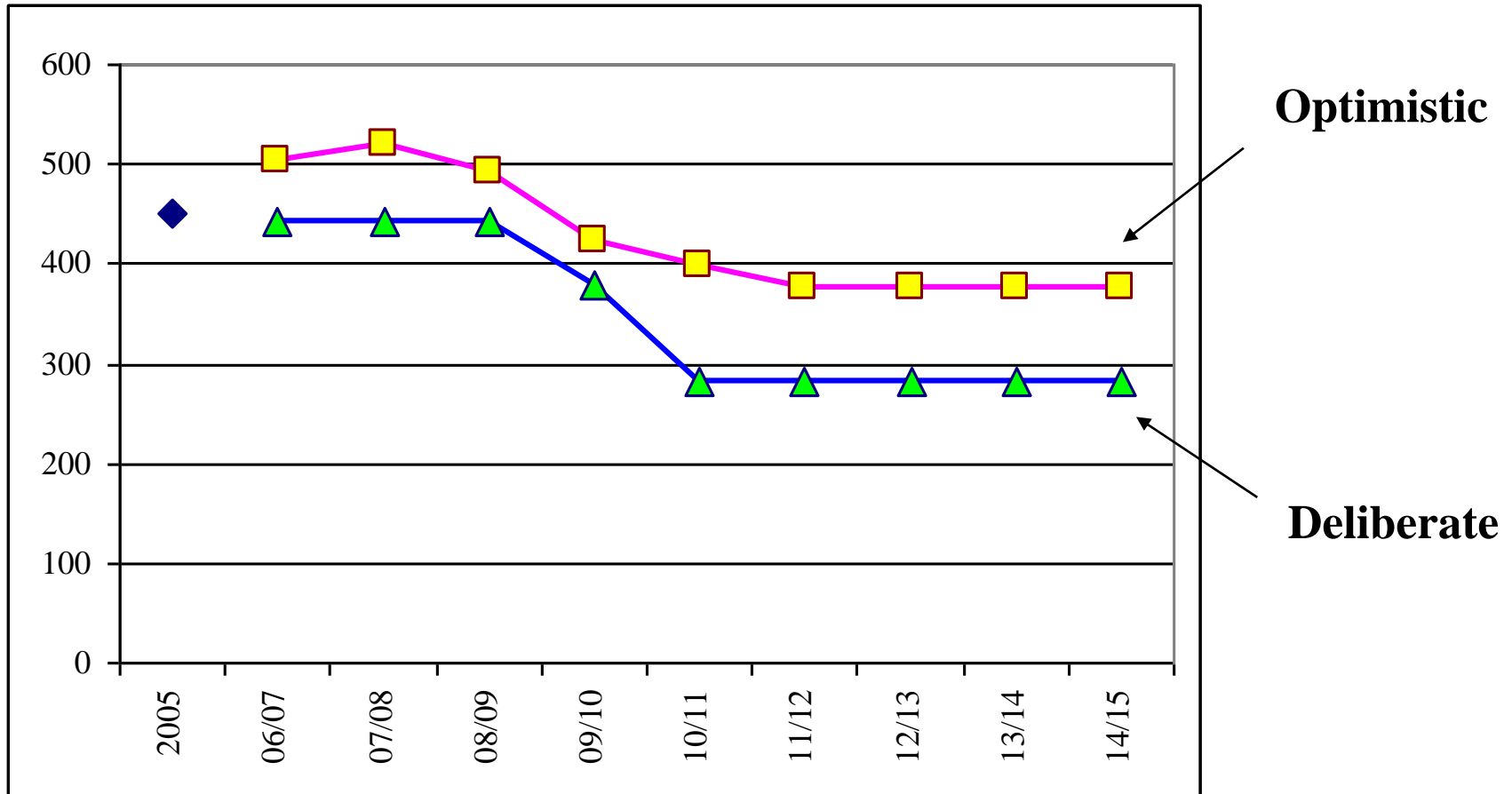
Assuming product and factors' price development:

- farm economy modelling based on
  - FADN data,
  - activity based cost valuating survey data;
- modelling of the financial flow for the whole sugar production chain to evaluate the total feasibility



# Assumed development of sugar prices

LVL / t



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# I. “No major changes”

Base scenario



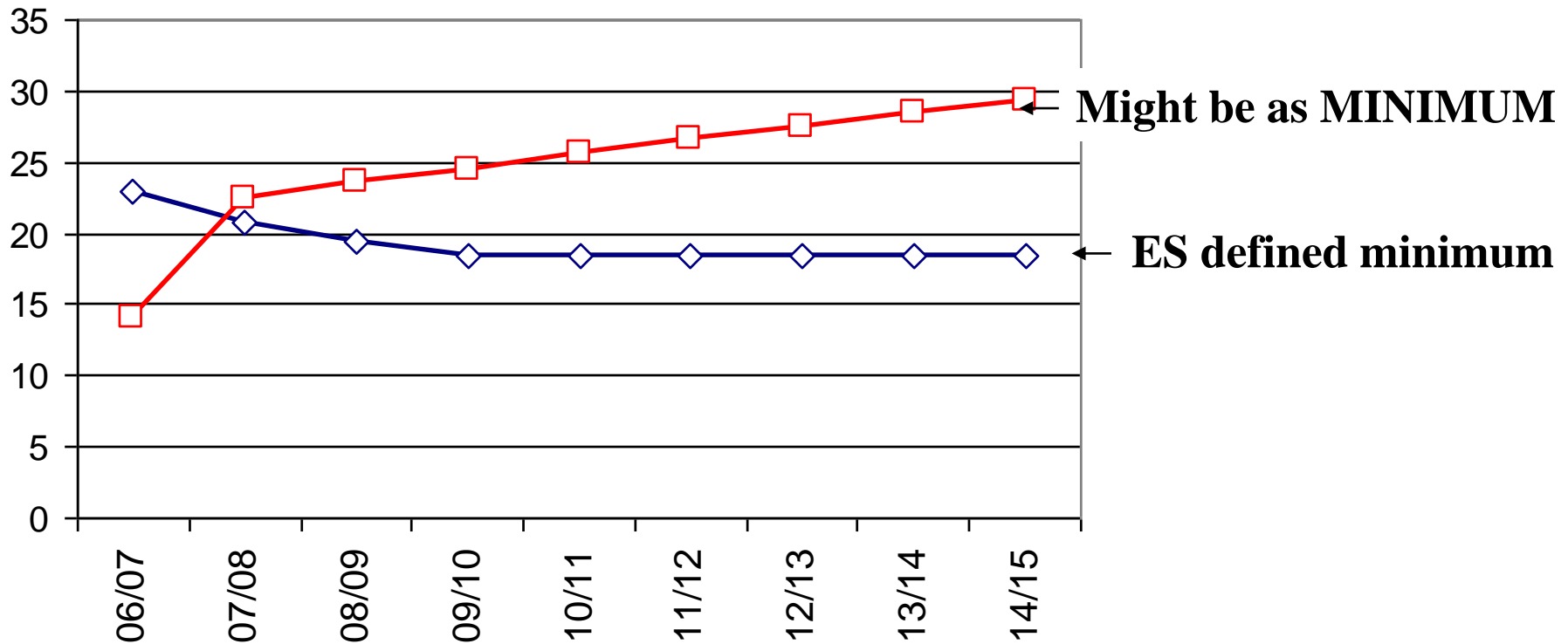
# Forecasts for beet grover's economy

LVL / ha	Sugar year	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
<b>Earnings:</b>		1 235	1 211	1 221	808	814	814	814	814	814
- From beet supplies		941	853	797	753	753	753	753	753	753
- Separate payment (linked)		271								
- Separate payment (decoupled)			332	393						
- SAP (SP)		23	26	31	55	61	61	61	61	61
<b>Costs:</b>		799	867	914	953	995	1 040	1 076	1 113	1 152
<b>Profit before the taxes (BT)</b>		436	344	307	-145	-181	-226	-262	-299	-338
<b>Beet dependent profit (BT)</b>		413	-14	-117	-200	-242	-287	-323	-360	-399



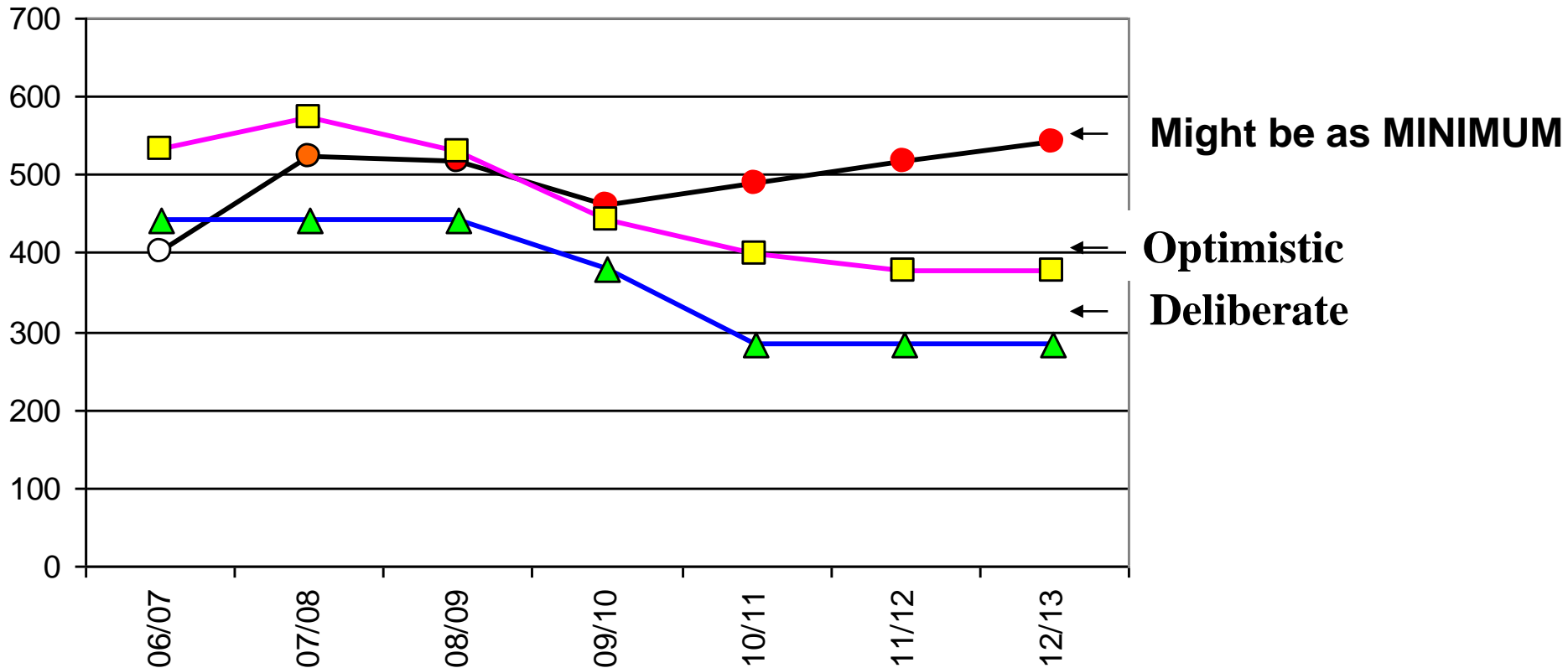
# What the beet price might be to ensure profitability?

(LVL / t)



# What the sugar price might be to ensure profitability?

(LVL / tonnu)



# Processing economy

## LVL / t of sugar

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
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### *When price would be at optimistic level*

<b>Earnings</b>	520	537	509	441	417	396	396	396	397
<b>Costs</b>	473	518	494	425	446	468	485	504	524
<b>Profits before taxes</b>	47	19	15	15	-28	-72	-89	-108	-128

### *When price would be at deliberate level*

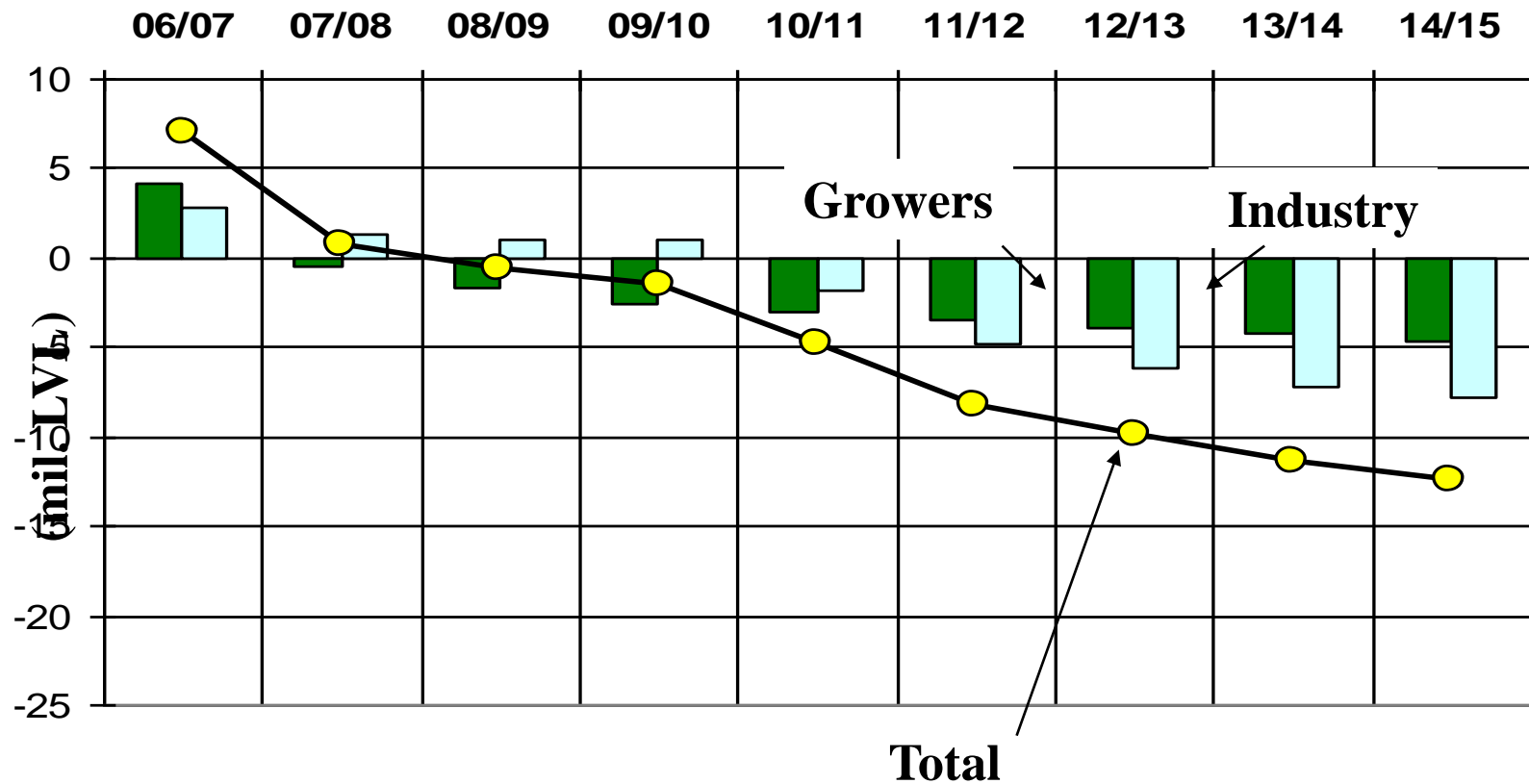
<b>Earnings</b>	459	460	460	398	302	303	303	304	304
<b>Costs</b>	473	518	494	425	446	468	485	504	524
<b>Profits before taxes</b>	-14	-59	-34	-28	-143	-165	-182	-201	-221





# Total financial result for the sector

**Optimistic**



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# III. Overall Optimisation of the sector with strengthened vertical integration

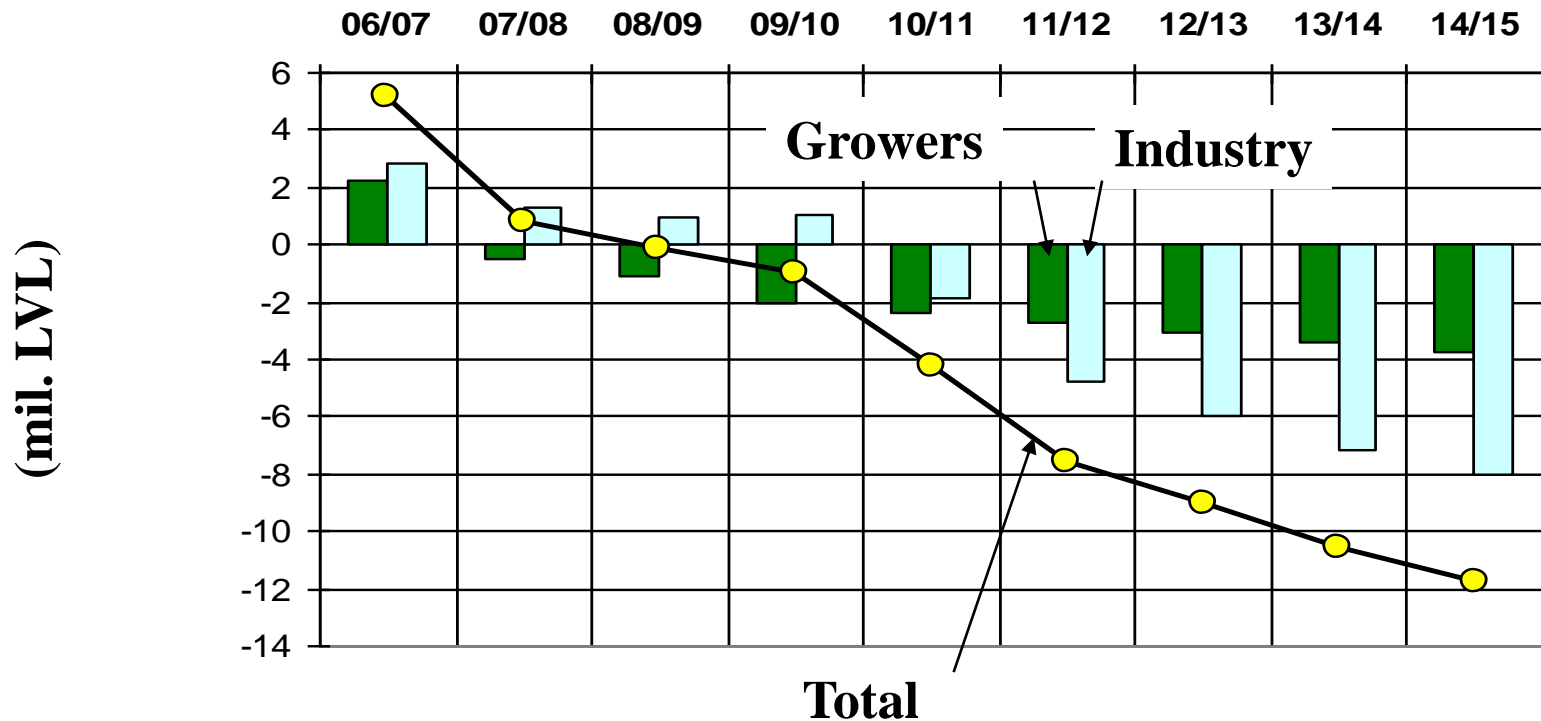


# 1. option

Growers: will increase average yield up to 42,5t / ha

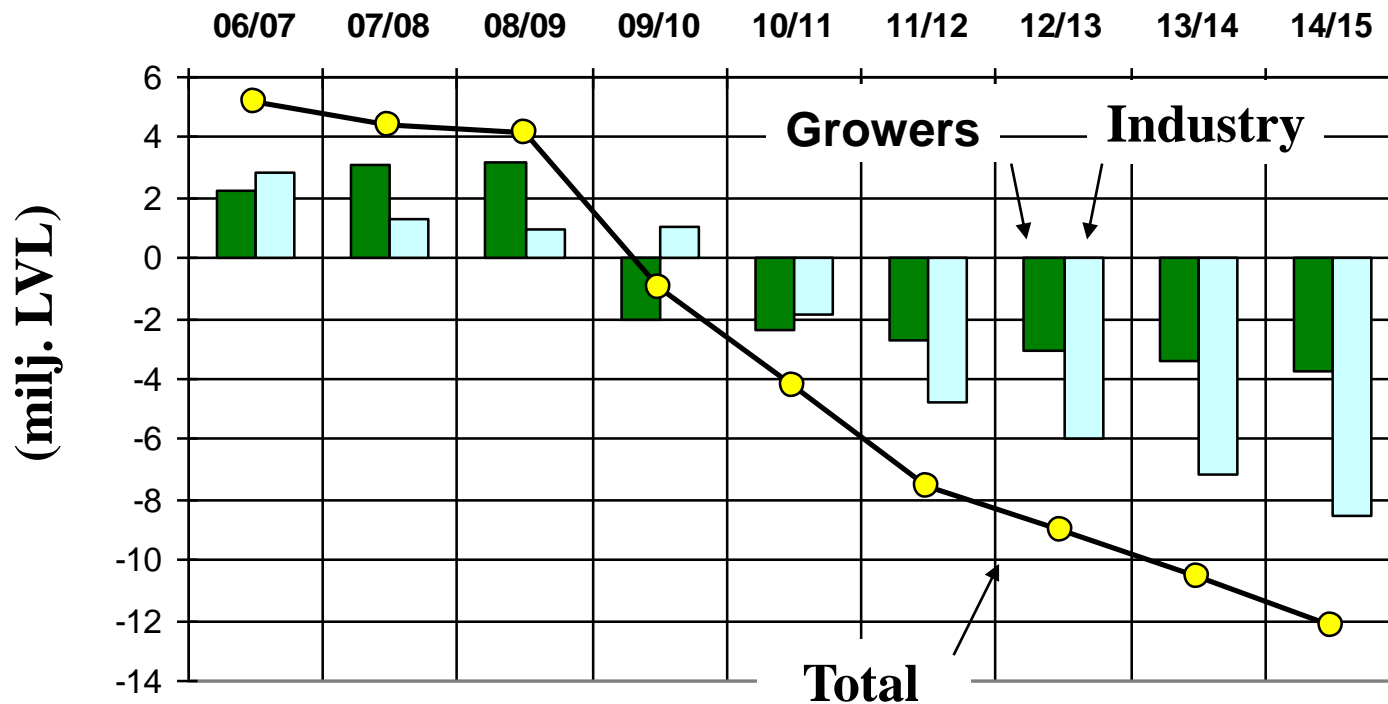
Industry: will choose the best development option

## Optimistic price



2nd option. Growers: will increase average yield up to 42,5t / ha +  
“perceive” separate sugar payment as coupled to production  
Industry: will choose the best development option

## Optimistic

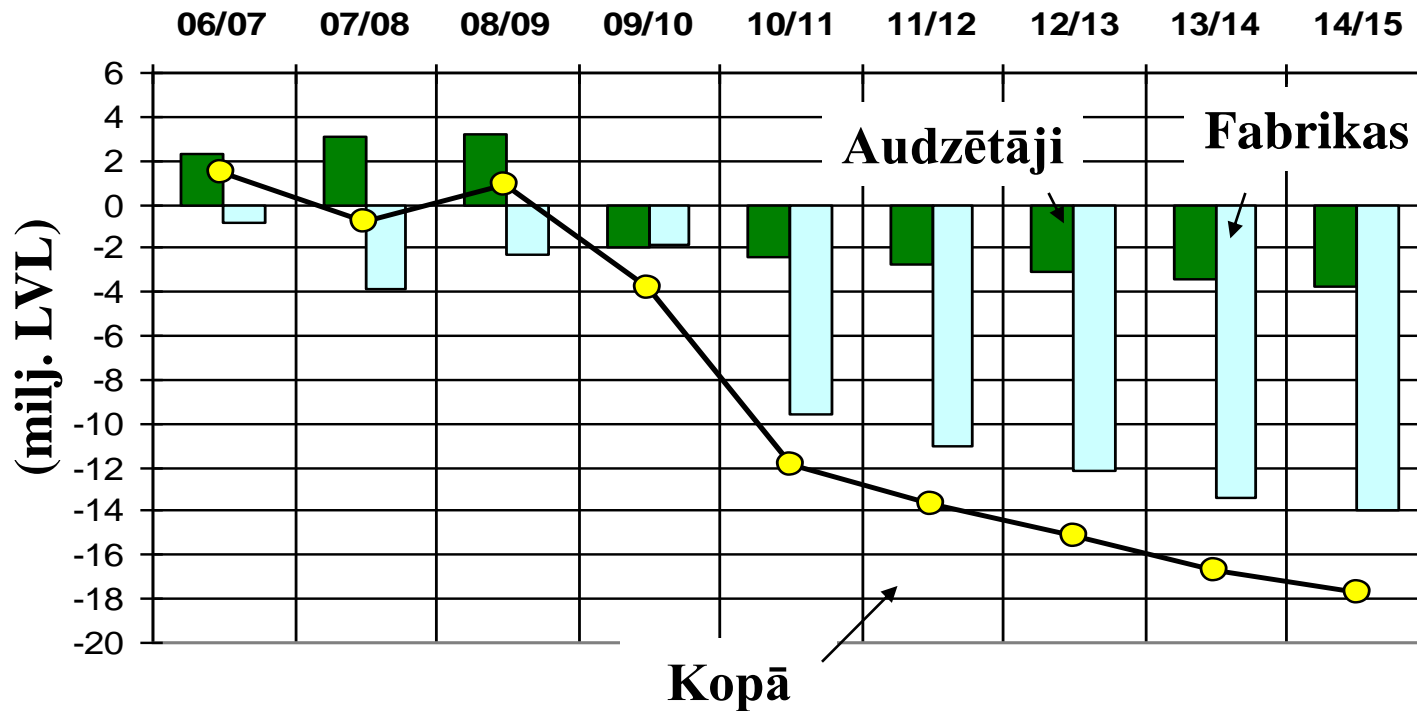


## 2nd option

Growers: will increase average yield up to 42,5 t/ha

Industry: will choose the best development option

**Deliberate**



# Some conclusions

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- The minimum price defined for sugar beets does not ensure profitability of production activity.
- A beet sugar production branch will not be able to find internal resources to continue production after few years:
  - it will not “survive” without external support,
  - current legislation does not allow to grant additional support coupled to production.

