
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”

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Why this study was carried out?

- 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



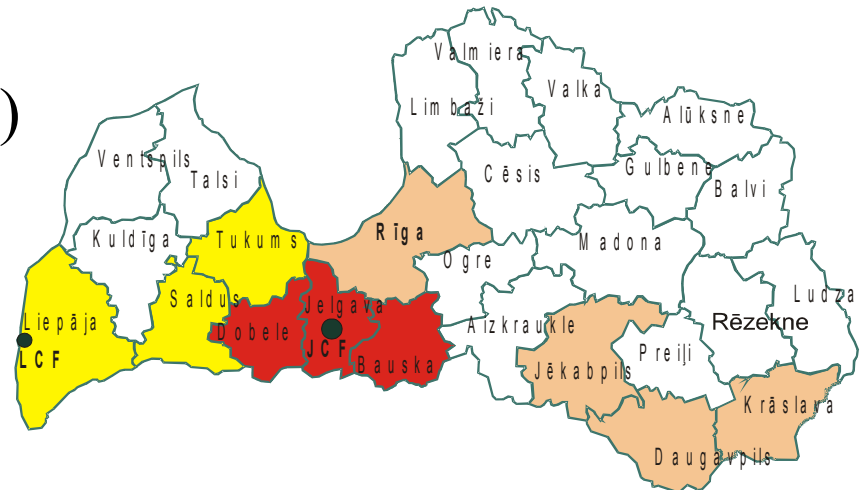
Objectives and tasks for the study

- 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

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



I scenario

Base scenario:

- 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

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)



III scenario II + modernisation and optimisation of industry

Assumptions for II scenario +

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



Methods used

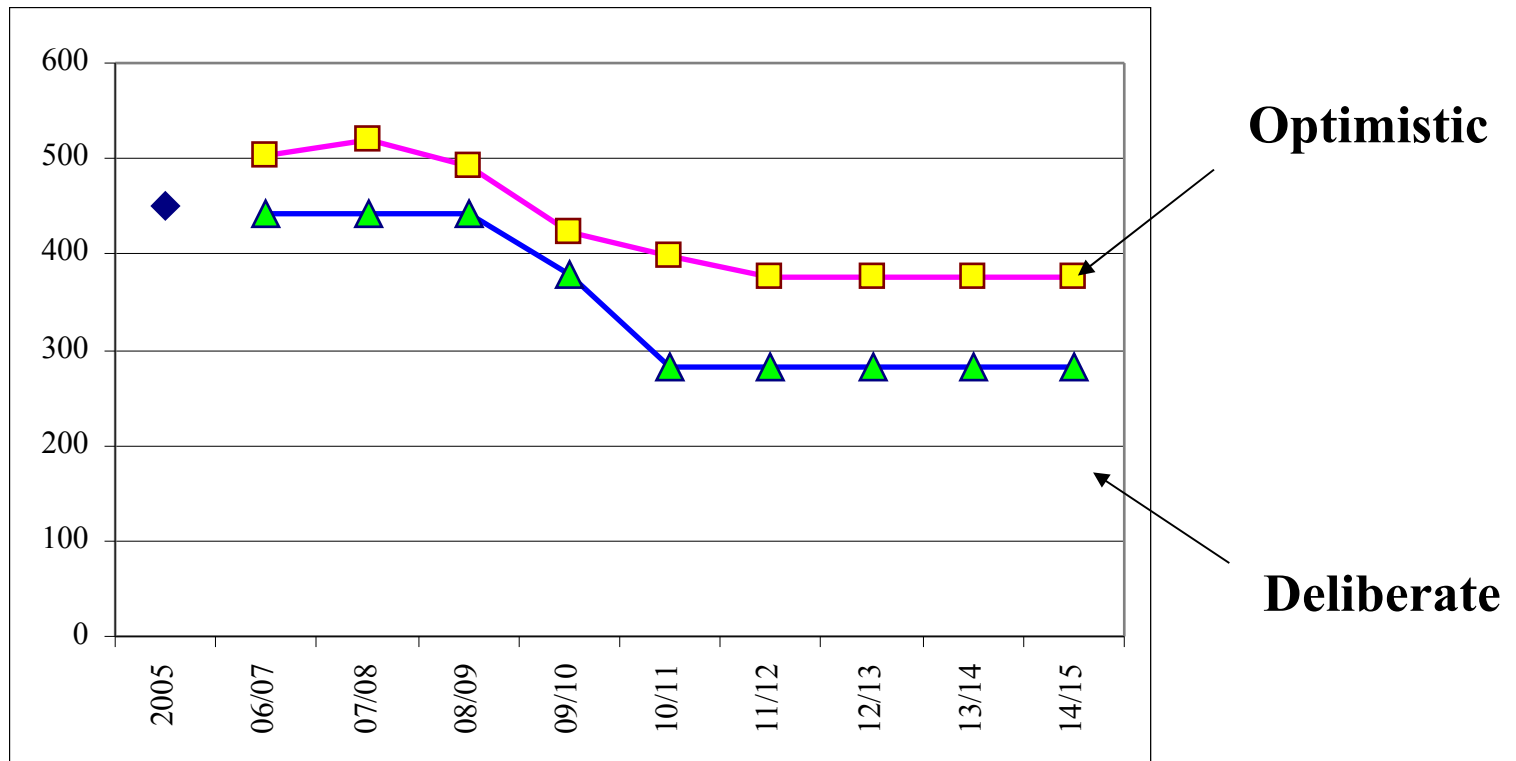
Assuming product and factors' price development:

- 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



I. “No major changes”

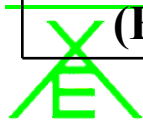
Base scenario



Forecasts for beet grover's economy

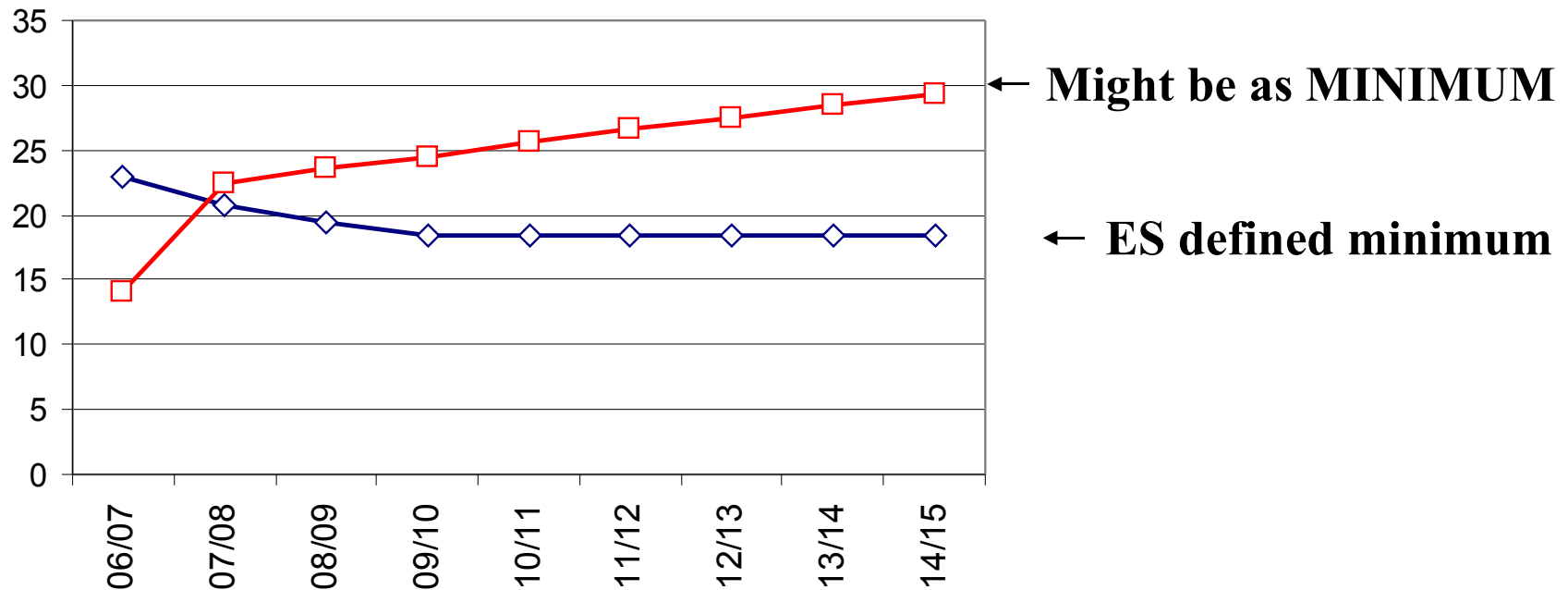
LVL / ha

Sugar year	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Earnings:	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
Costs:	799	867	914	953	995	1 040	1 076	1 113	1 152
Profit before the taxes (BT)	436	344	307	-145	-181	-226	-262	-299	-338
Beet dependent profit (BT)	413	-14	-117	-200	-242	-287	-323	-360	-399



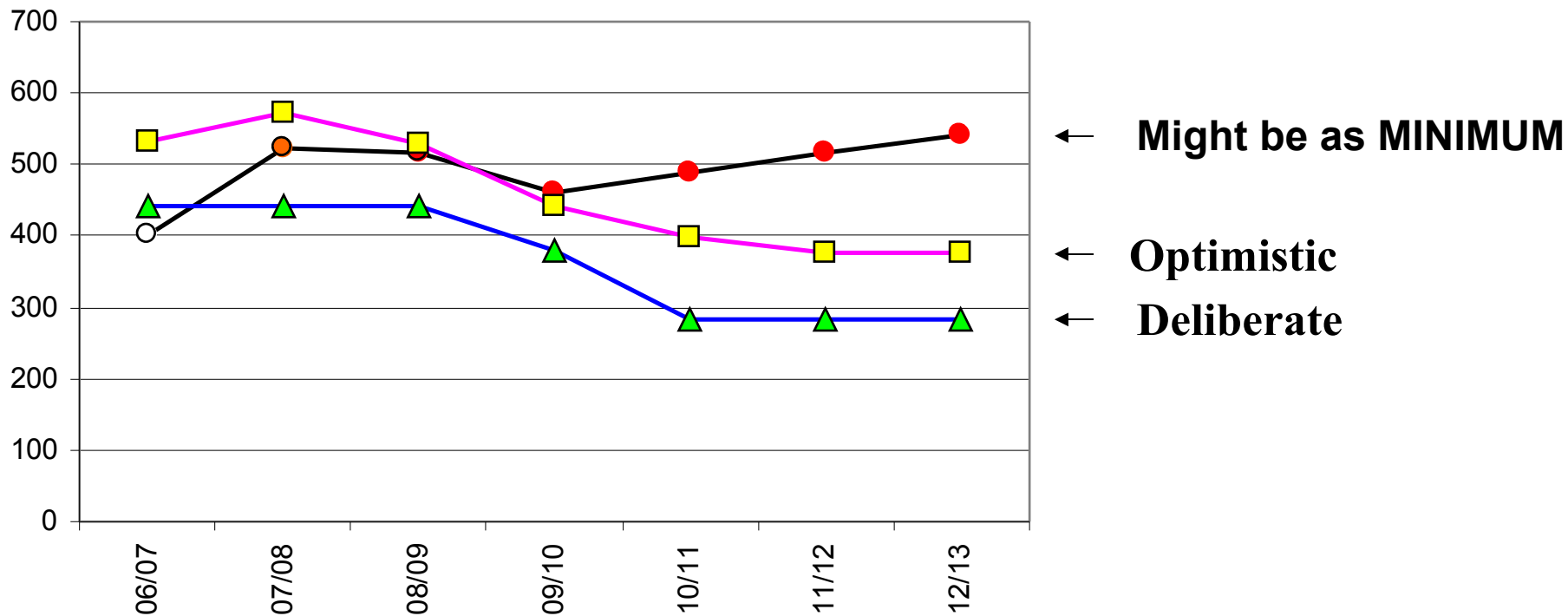
What the beet price might be to ensure profitability?

(LVL / t



What the sugar price might be to ensure profitability?

(LVL / tonnu)



Processing economy

LVL / t of sugar

	06/0 7	07/0 8	08/0 9	09/1 0	10/1 1	11/1 2	12/1 3	13/1 4	14/1 5
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When price would be at optimistic level

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

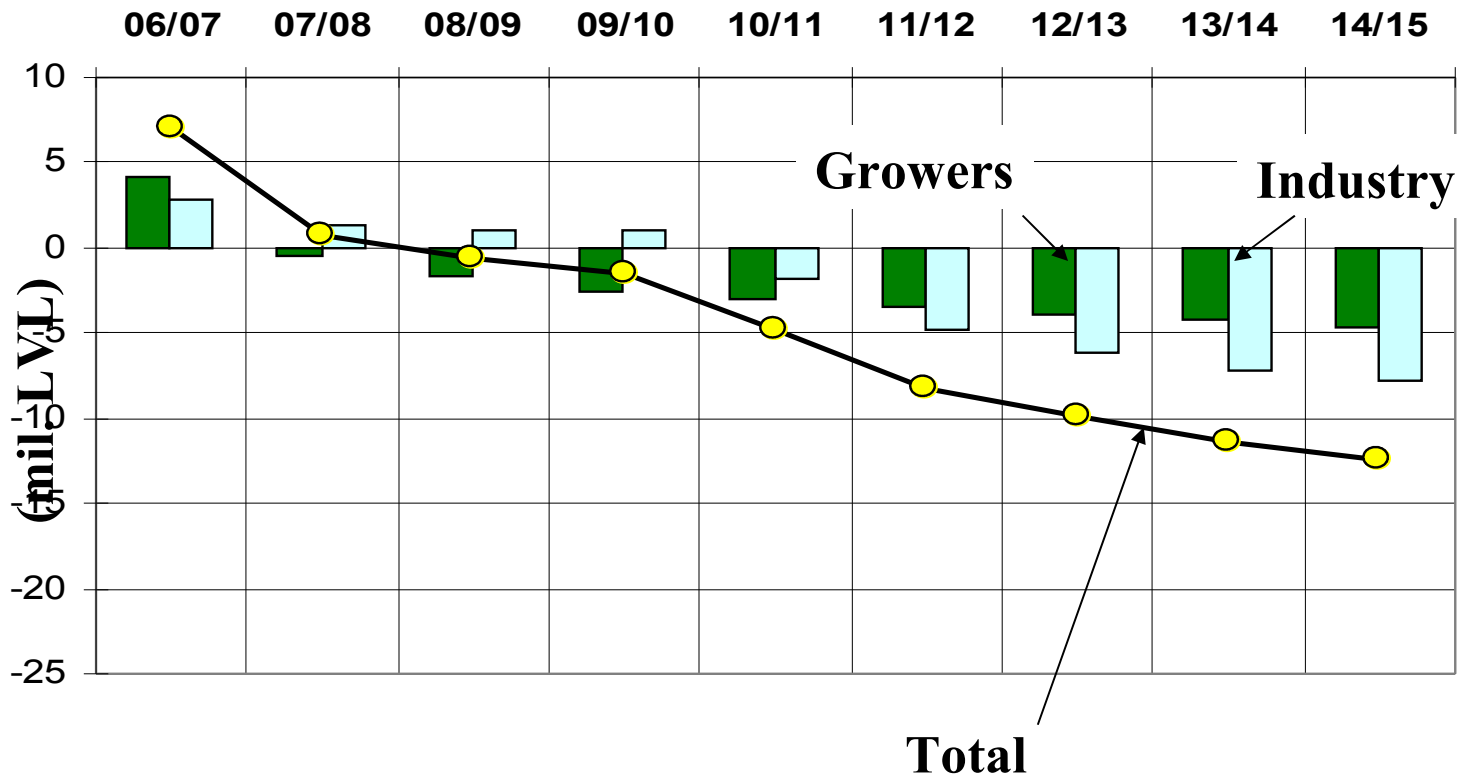
When price would be at deliberate level

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



Total financial result for the sector

Optimistic



III. Overall optimisation of the sector with strengthened vertical integration

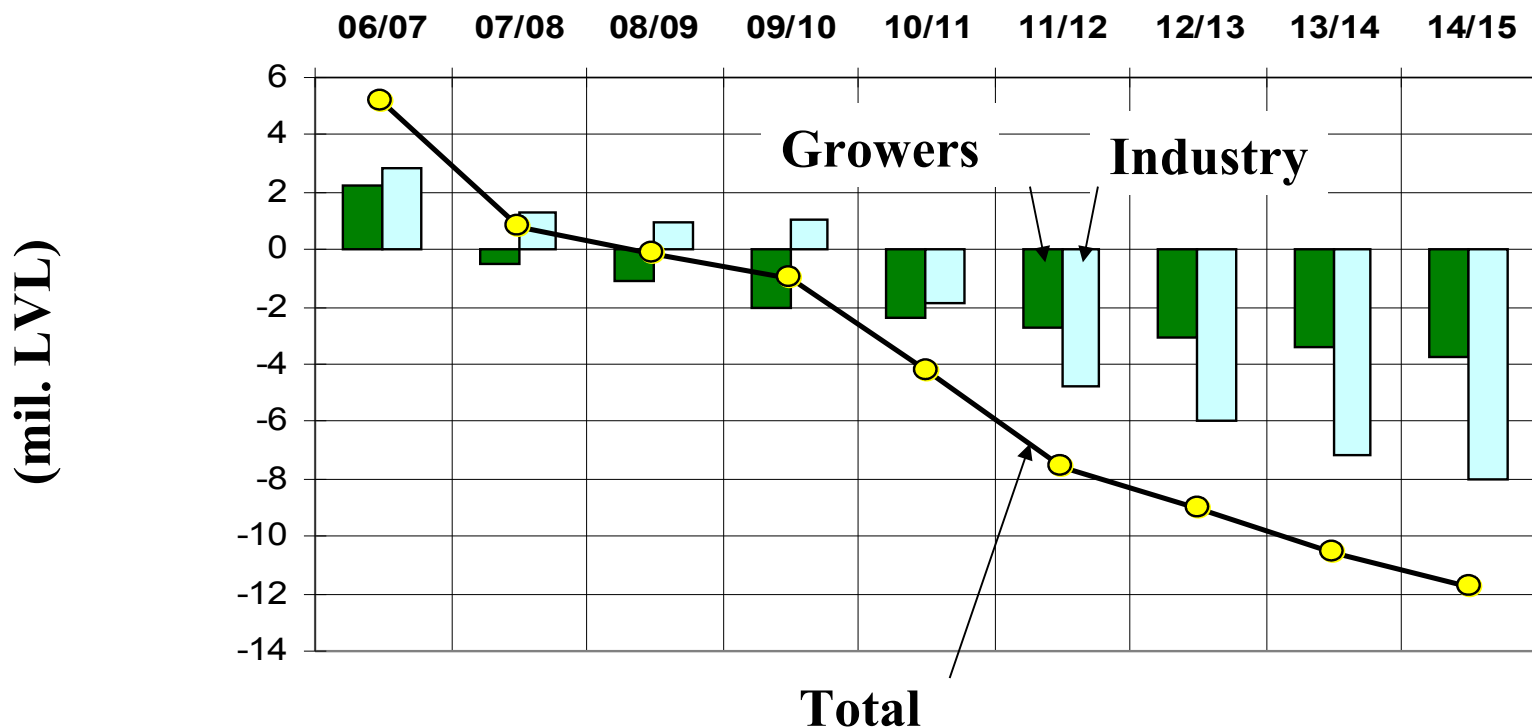


1. option

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

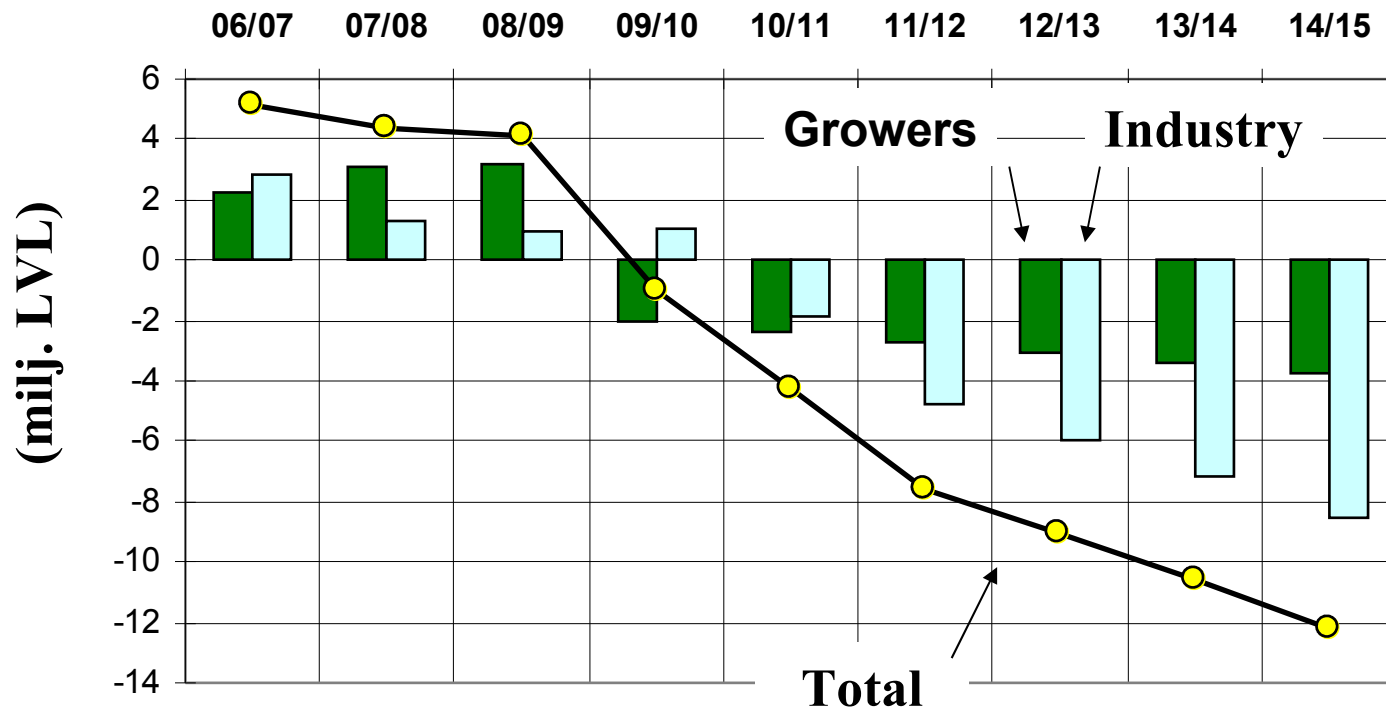
Industry: will choose the best development option

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

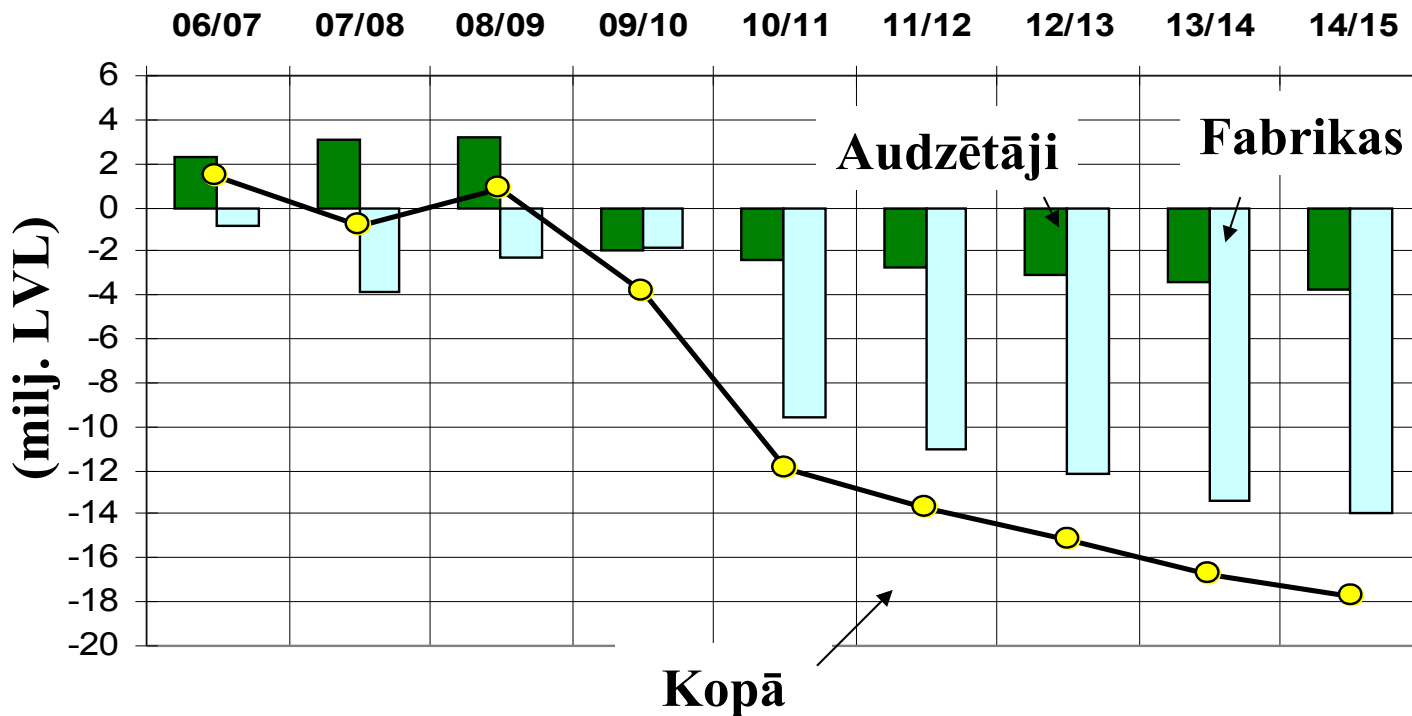


2nd option

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

Industry: will choose the best development option

Deliberate



Some conclusions

- 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.

