

10.3 BERT SMIT, KRIJN POPPE

Agricultural Economics Research Institute LEI, P.O. Box 29703, NL – 2502 LS Den Haag

THE POSITION, ROLE AND FUTURE OF COOPERATIVE SUGAR REFINERIES IN THE EU

**Situation, rôle et avenir des coopératives sucrières dans l'UE /
Situation, Rolle und Zukunft genossenschaftlicher Zuckerfabriken in der EU**

ABSTRACT

Cooperatives play an important role in the European agricultural sector, but in the sugar sector, they have a prominent position in only some countries (France, Italy, The Netherlands). The total market share in the EU sugar production (some 15 mln. tons) of the cooperatives is rather low (approx. 40%, not including the share of Südzucker and NordZucker, which are not cooperatives pur sang).

The conditions under which European sugar refineries operate have tremendously changed since 2006, the beginning of the EU sugar policy reform. Many refineries have been closed since then and a number of MS gave up their sugar quotas. In 2017, the quota system will be abolished, opportunities for sugar production will increase and sugar prices will decrease. Moreover, the importance of by-products and new outlets has increased. Part of the by-products is by now applied for green energy production, besides the traditional products like pulp and molasses. But there is also an interest for sugar itself as a source of biobased products, like bioplastics. The sugar market is increasingly linked with those of crude oil, bio-ethanol, starch, sweeteners and, indirectly, of cereals.

Cooperatives are enterprises characterized by user-ownership, user-control and user-benefit. An important question is which strategies cooperatives in the sugar sector will set up towards increasingly dynamic and complex market conditions and if those strategies will be different compared to IOF's (Investor Owned Firms).

INTRODUCTION

The European Commission has launched a large study, "Support for Farmers' Cooperatives (SFC)", to support their policy making process towards voluntary agricultural producer organisations. The SFC project also includes the European sugar sector. It provides insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can also be used by farmers, in setting up and strengthening their collective organisation. This paper is based on the sugar sector study and different country reports from the SFC-programme.

A cooperative is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.
- The user is in this case the sugar beet grower, as a member of the cooperative refinery, together with the other members of that cooperative.

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MATERIALS AND METHODS

Data collection and interviews were carried out for a quantitative and qualitative analysis of the position and role of the European sugar industry, with a focus on cooperative refineries¹³. The analytical frame work is given in figure 1. The performance of a cooperative depends to a large extent on her position in the food chain and the way internal governance has been arranged. Both the position and the internal governance structure of a cooperative have been shaped by the institutional environment, policy measures, legal, and social, cultural and historical aspects.

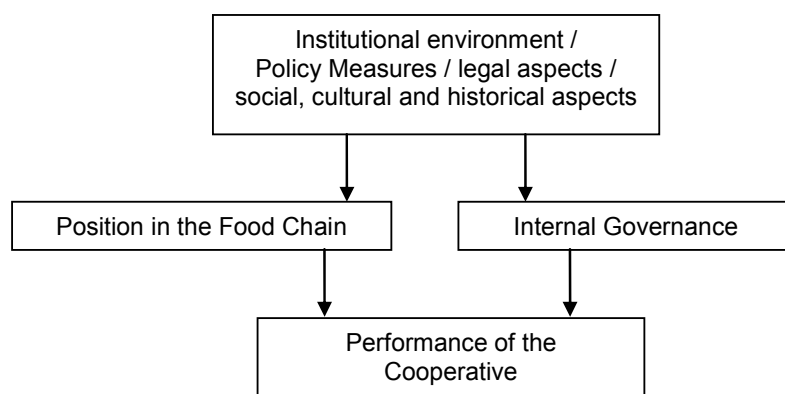


Fig. 1: The core concepts of the SFC study and their interrelatedness.

RESULTS AND DISCUSSION

Cooperative or private sugar production

Having or not having a cooperative sugar industry seems to be mainly determined by historical developments. Beet sugar production in Europe began in the time of Napoleon Bonaparte, who wanted to break down the barriers against his regime, preventing him to import cane sugar from overseas. As from 1900 onwards, sugar beet became an increasingly important crop all over Europe. In the last century, many beet sugar plants were established, some by private businesses, others by cooperatives. As in other agrobusiness, a continuous process of up scaling has since then led to large concentrated plants and ditto organisations, either private or cooperative. In some countries, the private companies were leading this process, in other countries, cooperatives were more successful. In the current era, with enormous sugar plants and investment costs involved, it is not easy to imagine that newcomers would try to establish a new (private or cooperative) plant. However, the abolishment of the sugar quotas in 2017, could create new opportunities, especially if market and price forecasts turn out to be favourable at that time.

For the time being, cooperatives still have a significant share in national sugar production in some member states (table 1). However, the total market share in the EU sugar production (some 15 million tonnes) of the cooperatives is rather low (approximately 40%).

Table 1: The largest farmers' cooperatives in the food chain of the sugar sector. In the Netherlands (100%), France (62%), Hungary (30%), and Spain (28%) sugar cooperatives play an important role.

Country	Name of cooperative	Turnover 2010* (billion Euro)
France	Tereos	3,8
	Cristal Union	1,7
Netherlands	Royal Cosun	1,7
Spain	ACOR	0,14
Italy	CO.PRO.B. Cooperativa Produttori Bieticoli	n.a.

*: 2010 or latest year available. Source: SMIT & DE BONT, 2012.

¹³ In the SFC project as a whole, not only the sugar sector was studied, but also e.g. the fruit & vegetable, sheep, and olive oil sectors. This paper focuses on the cooperative sugar refineries in the EU.

That even in the current era with a more or less settled distribution of the sugar production over private and cooperative refineries, changes could occur, was shown in the Netherlands. Cooperative Cosun took over IOF (Investor Owned Firm) CSM Sugar, after the Sugar Reform of 2006. The output of the sugar sector heavily decreased in that period (fig. 2). Figure 2 shows that total production value of the sugar sector in the EU has decreased especially from the year 2005 onwards. Reasons for this reduction of production value were the reduction of the quotas (production volume) and the decrease of the prices guaranteed by the EU (SMIT & DE BONT, 2012). The lack of opportunities for growth in production, market share and profit made multinational CSM decide to quit her sugar production branch. Being an IOF with shareholders must have had an influence on this decision. CSM's counterpart, Cosun, was a farmers' cooperative, whose first priority was not to serve 'external' shareholders but to take care of (part of) the income of her farmer-members, and, in this case, also of the farmers who had been contracted by CSM Sugar in the past. After a transition process of some years, the former CSM-farmers became full members of Cosun, increasing the cooperative share of the Dutch sugar production from about 60 to 100%.

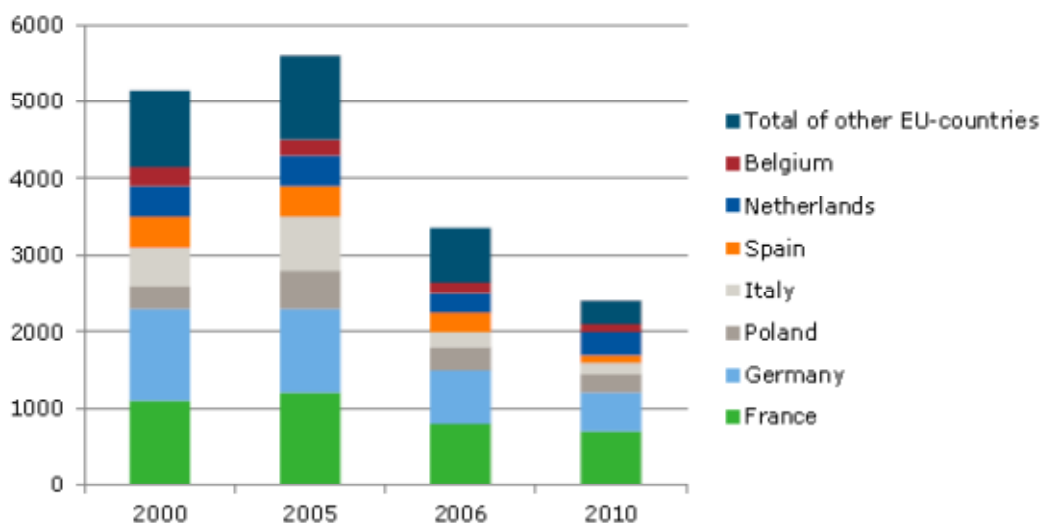


Fig. 2: Trend in output of the sugar sector between 2000 and 2010, in million euro. Source: Economic Accounts of Agriculture, Eurostat, adapted by LEI.

For several reasons, Cosun has been very successful since the take-over of CSM Sugar, resulting into e.g. high sugar beet prices for the farmer-members. Theoretically, an IOF has a more effective governance structure than a cooperative. A structure with member councils can give some delay in decision-making or restrict the management in innovativeness; more traditional members may be heavily critical on new business developments which the management considers crucial for the long-term profitability of the company. On the other hand, a cooperative may be a more stable partner for farmers, being less focused on short-term profits and high stock exchange rates. Ownership by farmers is a critical success factor for this stability.

By the way, the two main German sugar companies, SüdZucker and NordZucker, have a federated, hybrid character; officially they are an IOF (Investor-owned Firm), but sugar beet farmers own shares of the company. It would be worthwhile to study the advantages of such a hybrid structure, combining the stability of (partial) ownership by farmers and simpler decision making procedures according to IOF manners.

Functions and roles of cooperative sugar refineries

The main function of the sugar cooperatives is collecting and processing of sugar beet and marketing of sugar (figs. 3 and 4). There are also cooperatives who are involved in supply of farm-inputs and even on-farm production. The diversity of functions and roles of these cooperatives reflect the importance of the various interests of the farmer-members, as originally aimed at in the construction of each cooperative. Besides a good sugar beet price, a diversity of additional services could help the cooperative to keep the members loyal to the cooperative. On the other hand, there is a risk that minor

services are supplied in a suboptimal way from a professional point of view, in the end creating losses in efficiency and thus in profits for the farmer-members. Cooperative membership includes in such cases that farmers are both suppliers of raw materials and clients for various services¹⁴. That is a fuzzy situation which does not help to optimise the business aspect of the cooperative.

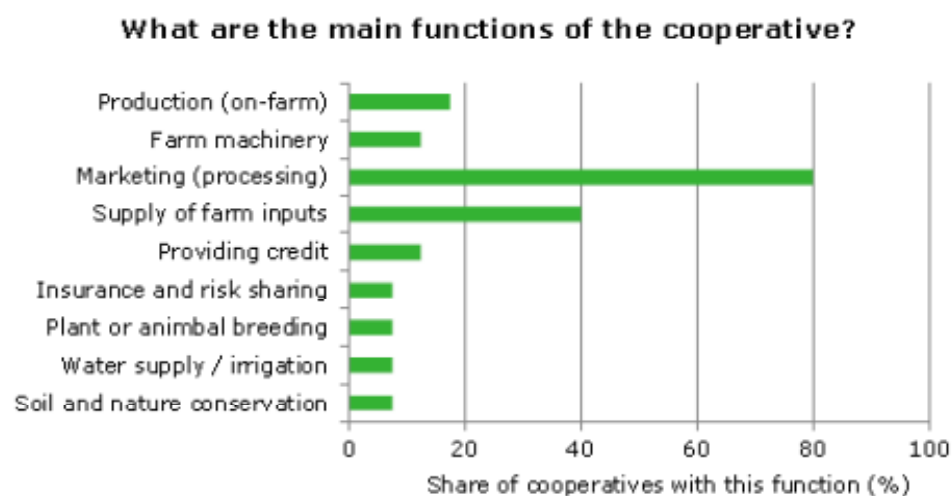


Fig. 3: Survey results on the functions of sugar cooperatives. Source: SMIT & DE BONT, 2012.

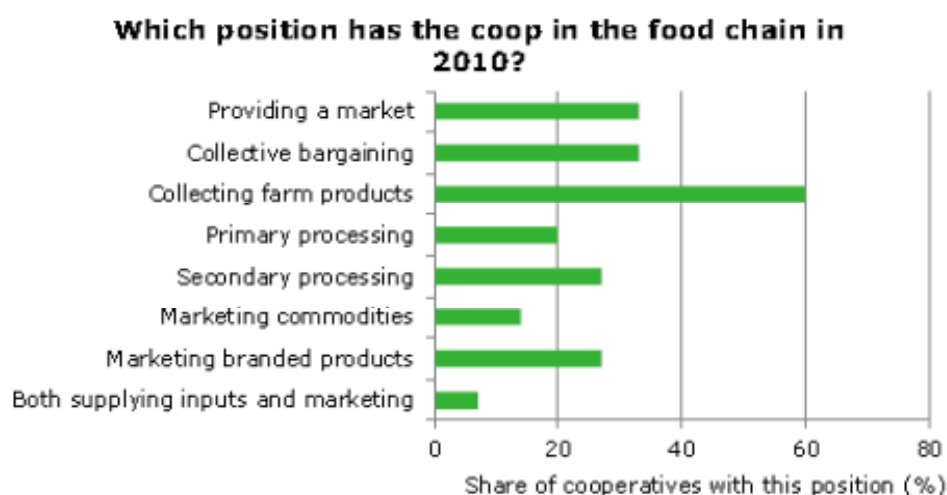


Fig. 4: Survey results on the role of sugar cooperatives. Source: SMIT & DE BONT, 2012.

Future challenges for sugar business

Most cooperatives follow mainly a strategy of 'operational excellence' or 'cost leadership', meaning that competition among sugar cooperatives and IOF's is in the first place reflected in a strong drive for cost price reduction. The well-known concept of economies of scale e.g. is utilised to the utmost. Sugar is in the first place a bulk product, not a product with numerous ways to increase added value, although there is some variation and value adding possible (fig. 5, left). Profits depend in the first place on the world sugar market price, which is supply-driven; world sugar consumption is rather stable, and slowly increasing, but the world sugar production is much more volatile, e.g. due to weather variations in the different production regions of sugar beet and sugar cane. Besides, the production will most probably increase from 2017 onwards, especially in the EU and Brasil, leading to lower world market prices (SMIT & DE BONT, 2011).

¹⁴ At least, that is how farmers most probably perceive their membership of the cooperative. The cooperative could also regard sugar beet growers as clients for sugar beet processing, as one of the services provided.

Under the changing conditions, more diversification in value proposition and clients may be required to keep profits at an acceptable level. Contracts with sugar utilising industries are already common, decreasing price volatility for these clients. Such contracts are there for industrial beet growing for bio-ethanol production in mainly Germany and France (fig. 5, right). A new and promising branch could be the use of sugar for biobased applications like bioplastics. Sugar, or sucrose, is a perfect raw material for such applications. However, there are competitive raw materials, and oil is still available at relatively low prices. The returns from by-products could be crucial in the price-setting of biobased building blocks from different sources and therefore in the question if sugar is to play a significant role in the transition to a biobased society. At the moment, part of the by-products is applied for green energy production, besides the traditional products like pulp and molasses. Due to the competition between sugar and other raw materials, the sugar market is increasingly linked with those of crude oil, bio-ethanol, starch, sweeteners and, indirectly, of cereals.



Fig. 5: How will sugar cooperatives and IOFs perform under the new conditions of quota free production? Which products will they produce for which markets?

CONCLUSION

Cooperatives and IOFs have both advantages; are there opportunities for hybrid forms? It is worthwhile to examine whether both the business model and the internal governance of cooperatives can be improved to create even more value for her members. In this era, with a great interest in BBE and (soon) without sugar quotas, sugar cooperatives need to consider diversification: a) consumer products with higher added value, b) large-scale production of raw materials for different industrial applications in bio-energy and bio-materials and/or c) a focus on specialties, e.g. in by-products.

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See also: www.wageningenur.nl/nl/show/Support-for-Farmers-Cooperatives.htm.