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EUROPEAN SUGAR : EAST AND WEST

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The rest of the world, particularly yours, maybe considered as specially peaceful, quiet even dull, when compared to what is happening to us Europeans. For the last 40 years, we had lived in a world of no-change, where everything was taken for granted, settled in a state of comfort on each side of the wall, both physical and intellectual on the western side, just intellectual on the Eastern side, and that was it.

Now and suddenly we have 3 wars, much starvation and many shortages, huge migrations, considerable joblessness and a real revolution in the country side is being started. To make the whole thing tastier we have, as I write this, a declared war with you on agriculture and trade issues, of course not to be put on the same footing as the real ones (nobody will die, just jobs, farms and businesses, whatever the outcome).

And still we pretend to continue carrying out a process of all-European economic and political integration, which of course is the craziest thing to do under such circumstances, but which in many ways we cannot skip doing if we want to avoid heavier penalties and even plain chaos.

What is happens and will happen to sugar production tells a lot about today's and tomorrow's Europe. From comfort, sometimes opulence, fast technical progress and a solidly positive contribution to our trade balance, sugar moves to reconsideration, reform, reshaping of the institutional frame, even revolution.

The present picture is striking : we have produced far more sugar than we cared to at present world prices, not just in the EC but in Poland, Austria, Hungary and Turkey, but still 100 million Europeans do not have enough sugar to eat.

Admitedly, the case of those who do not eat requires more attention and raises more problems than for us at the Western edge of the Continent.
This is maybe why those who asked me to adress you have put EAST before WEST, an order which I will follow.

EAST : BACK TO WORK, A COSTLY PROCESS

Central and Eastern Europe is a more than good potential area for sugar : it was sugarland, accounting for more than half of the world sugar production and exports before World War I. Actually sugar beet was born there. Sugar per hectare was higher in Czechoslovaquia than in France in the nineteen thirties and, though land collectivization had disastrous impacts, beet factories' technical standards were still high in the late fifties' Eastern Europe. In fact this is where we find them now : thirty years behind us in terms of extraction results, sugar quality, labour productivity and energy consumption. The main culprit, interestingly, is Cuba. When the Sugar Island was assigned the task to supply, with raw sugar, all the increasing requirements of the CMEA, nicely complementing beet slicing with cane sugar refining, investments in the beet sugar sector lost priority, and genetic research deteriorated. Factory yields dropped from 14% to 11% on average in sugar produced per beet purchased, the result of inadequate work on variety and chaotic transport logistics. Sugar refining was far easier and profitable. The 7 "large" Bulgarian factories never succeded to produce more than 100,000 T - in disastrous conditions - but were able to refine 400,000 T of Cuban sugar.

Production still strong......

Bad as it is in terms of productivity, the system is studier than we thought. Reform, revolution, decentralization and inflation, could have played havoc in such a sensitive industry which requires a strong degree of planning. Overall though, the sugar industry is still there, and not performing really worse than it used to before the political and economic change process started. Production has indeed dropped, but this is due more to adverse climatic conditions, particularly in Ukraine, than to political factors. Certainly there are critical situations : war in Croatia and utterly absurd management of agriculture in Rumania, but normally the system still works and even manages to show better results, like this year in Russia. Transportation of sugar works surprisingly well. Most of the Polish, Czech and Rumania factories may be technically bankrupt but they work, quite often because the former factory managers have survived the set-up of workers "collectives" and the old industry bosses still reign.

.... but chaos on marketing and consumption

Consumption, on the other hand, was bound to suffer. The availability of sugar was a top priority for the old regimes. Shortages started to appear with Mr Gorbachev's absurd but quite understandable campaign against alcoholism. Shortages have existed ever since in most of the former USSR, Poland, Rumania, Bulgaria.

The degree of waste must be substantial since in 1992, CIS republics imported the unprecedented quantity of 6 million tonnes (3.5 MT of raws, almost exclusively from Cuba, and 2 MT of whites from everywhere : the EEC, Hungary, Turkey, India, Thailand, China, Brazil) and at some point the sugar prices fell in current rubles, but rationning continued and was severe in parts of Russia, and in Ukraine, an exporting country.

In fact, no marketing competence exist in the sugar industry, nor in any industry either. It was and still is located elsewhere. As the factories did not have to worry about marketing and shipping, the storage capacity is unadequate : it can only take less than 50% of the volume produced in an exporting country like Ukraine (in France is more like 100%). As a result outdoor storage is not unfrequent.

When sugar shortages appeared they could only get worse as shortages extended to about every simple product and inflation could no longer be put under control. This is because sugar has become one of the many moneys in circulation. In Ukraine, even the beet and sugar truck drivers receive a statutory compensation in sugar. Beet "tolling" formulas, by which beet growing farms receive and (mis) handle most of the sugar processed from their beets appeared in 1990 and gained a dangerous extension. Over 300,000 T of sugar might be produced under this or similar arrangments in Ukraine this year. The "gozakhaz" or State orders are by-passed to the detriment of the housewifes or entreprises whose purchasing power are limited to rubles, coupons or unbarterable goods. Barter formulas also flourished this year for imported white and even raw sugar : buyers could be litterally anybody : provinces, towns, factory collectives, individual traders. This leads to double counting, useless hoarding, accentuation of local over - or under - supply situations, in one word, plain waste. One may think that such a mess is limited to the former soviet republics ; no so. It also affects Rumania, to a smaller extent Poland and other areas. In Hungary the Western Groups, lacking even the most basic distribution reporting system, initially complained about an oversupply situation and insisted that the Government take export supporting financial measures and put pressure on the growers to reduce acreage (which they did), only to discover later that consumption was doing far better than they had thought and the final crop year's stocks stood at a dangerously low level in fact.

The path to recovery.......

All this, again, is not beyond remedy, though, and there is hope than the beet and sugar production and marketing system can be modernized fast. The five new Länder of Federal Germany show how one can jump from 3.5 T to 6 tonnes of sugar per hectare in a matter of 2 years.

A similar progress has been made in Hungary (4.5 to 6.5 TS/ha) with the techniques brought by the Western, mostly French groups. Full scale experiments in Ukraine, like the one my firm has been associated with on 20,000 acres of beet in the Tcherkassy Province, show, in a particularly bad year like 1992, results 50 to 80% above the regional average in terms of sugar per hectare. Even in difficult Rumania, the test areas developed by SUCDEN and the French beet growers have sometimes shown brilliant results. This is not to say that it is so easy : the technological "path" ("itineraire technologique") introduced by the French has proven itself far too high-tec to be adaptable "accross the board" to East European conditions. In particular, the small doses of expensive and specific weeds, pests and diseases - killing chemicals did not show much immediate response where the beet farms were used to apply (when available) massive quantities of unsophisticated, but cheap, treatment products.
In the case of exporting countries like Hungary, Poland, Serbia, Ukraine and Moldavia growing and processing along the Western Europe pattern may prove too costly for world market - priced sales.

.....but how expensive ?

However, real production costs for export are hidden, to a certain extent, by the extreme rarity of foreign exchange and the ridiculously low cost of wages (about 80 $/month in some republics) and inputs, and all kinds of effective crossed subsidies on the cost of energy and processing materials.

The same observation is valid for refining. It has seemed obvious to Ukrainian and Russian sugar industries that cane raw sugar could be a cheaper raw material than locally grown beet. Tolling, sometimes done at negative fees, was quite attractive for Russia, Ukraine the Baltic Republics and Kazakhstan in 1992.

How long, however, will these very special economics persist ? This is all the more open to question since Czechoslovaquia, Poland, East Germany already went, or are getting, out of refining. This activity may survive, provided it may be sustained with cost below the long term level of the white sugar premium (50 to 60 $/T), which is doubtful as long as it continues wasting energy (150 kg of heavy fuel/TS) and labour.

The continuation or disappearance of the Russian and Ukrainian refining is one of the major points to watch in the world market of the years ahead. For Cuba it represents by far the major market, a market the E.C. sugar producers want for themselves. There is there a focus of confrontation between the EC and Cuba, which requires from Cuba competitive pricing conditions, to balance the disadvantages of distance, logistics and increasingly less competitive customers, as real economics prevail and beet becomes more competitive.

Refining may appear to some people as just helping an obsolete tool of production to continue working without major investments, under an economy of shortages, and a gross undervaluation of locally produced inputs and labour. As these countries get closer to modern economics, even integration to the Western European model, sugar, as every sector, faces modernization and restructuration, the cost of which is going to be horrendously high in economic and social terms. To give a simple idea of their magnitude, even with yields per hectare still far from the best performing areas in the west, but about twice their present level, beet areas should be cut by 1.5 million hectares.

Similarly, the existing factories, averaging 2600 tonnes of beet per day, should be reduced from 540 to 210 in order to achieve a decently competitive size (see the attached table). Labour force might have to be cut by 75%.

The Eastern Germany case is fairly instructive : there were 43 factories there. The German Groups and Danisco are to keep just 5 of them (3 as thick juice operations, 2 being increased three - fold in capacity) and build 4 brand new and large ones, at a total cost exceeding 1.5 billion $.

A rush to the East ?

Where all this money could come from is the question. These countries do not have any saving capacity of their own. They are all set to "privatization" but with no capital available, which is to put the cart before the horse. So far, one major solution is emerging : a wide opening to foreign investment. There is in fact a trade-off with Western European sugar groups by which fractions of East European sugar markets are practically awarded to them against commitments to make the production tools modern, efficient and fairly competitive. British Sugar was the first one to throw itself in the cold waters of Poland 3 years ago, followed by Eridania Beghin-Say (Ferruzzi Group), Générale Sucrière with Tate and Lyle, Sugana of Austria with Sudzucker, all of these in the hardly warmer pool of Hungary. Czechoslovaquia now follows with the French again setting foot in Bohemia. The Danes seem to be in an expansionist mood as well.

It is to soon the assess the impact of the rush to the East. Certainly, for the involved westerners, it has not been a gold rush so far and the promises are more likely to be "blood and tears" for the Paris, London and Mannheim general staffs in the years ahead. But had they any choice ?

Is there any other option open for the Easterners ? This remains to be seen, as the westerners have mainly restricted themselves to 2 countries so far (Hungary and Czechoslovaquia), Poland being considered as a little too "messy". One thing is certain : westerners can be ready to pay a price for a market share, provided there is a market. A market in European language is just the opposite of the wilderness which prevails now (and which is considered by the naïve newcomers as the characteristic, precisely, of a market economy). A market for us Europeans is not just selling sugar, it is a set of rules establishing relationship between beet and sugar prices, minimum stocks, last recourse Government purchase and effective border protection. All this is a set of conditions the relatively weak Governments, successors to the Communist State, have been utterly unable to establish. The strongest deterrent to the large investments required is the absence of stable rules and sometimes the absence of Government.

One solution would be to put the adhesion of our Eastern neighbours to the EC on a faster track. The West has been utterly reluctant to set goals and dates for adhesion, and with reasons I fully understand. But this, in my personal opinion, is to put the Eastern European food sector in the quite awkward situation. Is it normal for them to have their future new Common Agricultural Policy and their international commitments as well, being set by West Europe, and the gaps in techniques, productivity and environment to continue widening, without having their say in what is going to be their daily life, when, they do not know either ?

There is clearly a case for either a faster adhesion process or the establishment of a all - European Common Agricultural market for which integration steps woulds be established far in advance, along the model set on this side of the Atlantic by NAFTA.

THE WEST : THE URGE TO RATIONALIZE

How large is Western Europe

and how large will the EC become, the answer is not so simple : Sweden and Finland, beet sugar producers and cane refiners, Austria and Switzerland, beet producers, and Norway (not a producer) are all candidates to EC adhesion. Turkey, a very competitive sugar producer, which looks to Asian Republics for fresh sugar markets, is also a candidate, but its presence in the EC by year 2000 is still doubtful.

The newcomers' beetgrowers and processors get a better treatment, price-wise and margin-wise than the EC producers. They will have to adjust to lower incomes. While this is not a problem for the Swedes and the Austrians, the Finns and the Swiss will suffer and ask for adjustment periods and should probably set up deficiency payments.

The GATT

Adjustments are all the more required since the producers are facing constraints resulting from GATT commitments, the new CAP and a new Sugar Regulation now being actively prepared in Brussels.

If the GATT impact might be of substance, it would be, interestingly enough, because of the combination of the existing system of restitutions and a clause in the GATT Secretariat Text by which (I quote from Article 9-1-c)) "payments that are financed from a levy imposed on the agricultural product concerned or an agricultural product from which the exported product is derived" are considered as export subsidies. This is what one should call the EC sugar clause. Try to explain to the EC producers that their sugar exports are subsidized, you will have to make a fast get-away. Certainly it was silly enough for the EC beet and sugar producers to have left the production levy + restitution funding system to survive, while they are 100% world market exposed on all their export sales anyhow, and this system should be reconsidered. On the other hand this GATT clause is absolutely unfair to them and, in my opinion, should have been, or should be, struck out.

On the other side of the EC sugar balance, "parasitic", sporadic, imports may occur at low world market levels if the proposed safeguard clause is maintained. The EC sugar industry points out that the additional duties proposed are totally unadequate in consideration of the special characteristics of the world sugar market, particularly its high short term volatility, which is a fact. I bet with you that any smart trader could beat them easily, as it was the case for the US fees in the 7 dark years of 1975-1982. This position on the safeguard clause is shared incidentally, with, I believe, most of the US sugar industry.

This is understandable considering that GATT disciplines will have impacts on less than 25% of world sugar production, and, in the opinion of the most experienced sugar analysts, will probably increase, not decrease anyhow, the price volatility.

If you have to cut on exports, and even take small tonnages of imports in, the only solution, with limited consumption growth, is to cut production. This is why I consider the EC production and all West Europe's by the same token, as "frozen" for the years ahead. C sugar export production could react to improved world prices, but better world prices are not to be seen in my crystal ball for the next few years.

New CAP

There are other GATT commitments concerning Internal Support reduction. Those however appear to be, for beet and sugar, on line with what is not quite yet on the books, but might very well come, concerning cuts in the guaranteed price.

Here again we have an equation the terms of which are set by the 30% cut in grain prices. Even with HFCS, and now fructose, staying under quotas, it would be a wild proposition to have secondary but important sweeteners costing 15 to 20% less than the major sweetener, sugar. Sugar beets have not yet been put under new CAP constraints (like set aside, lower guaranted prices and deficiency payments), as Brussels is not particularly keen on hitting a crop which is budget neutral and contributes strongly to maintain a lot of farms in existence, as the other crop's contribution margins trend down sharply. It looks like, however, that new CAP will indeed apply to beet and incomes will suffer.

Lower incomes carry requirements for a degree of deregulation, at least allowing to make the sector as a whole more cost efficient. The allocation of national and company quotas did recognize, to a certain extent, the EC map of competitiveness in sugar production. On the other hand, they have proven to have serious drawbacks. Paying one billion $, not just for the 7 factories of Raffineric Tirlemontoise, but in fact for a 600.000 tonnes quota set a bad example, establishing a high price for the necessary restructuration of the EC sugar industry. One should recognize that they are too many factories. And do we need 87 sugar companies to produce 17 million tonnes in Western Europe, when you manage with 7 to produce 3 million ?

This is why, in my opinion, as the quotas are being kept, the new sugar regulation will have to establish ways and rules to allow this 17 million production to move within the large territory of the 17 members EC. I admit that the exercise is far more difficult - and costlier, for the reasons explained above - than moving cane acreage along the coast of Queensland, but it must be done.

The impacts

Certainly, there will be tearful episodes. The EC lost over 100,000 beet farms in the last decade and is set to lose 75,000 more in the years ahead. On the processing side, 64 units were shut down and the rate will probably be maintained at 7 closings per year, maybe more. 40 companies merged or were absorbed.

The social impact is large, but has been properly managed. Staffs have been reduced 40% on average, and the trend accelerates. Labour cost were down by 25%, and energy consumption has been cut by 40%, to slightly above 20 kg per tonne of beet processed in France. While automation, energy saving and capacity expansion so far top the investment list, one has to expect heavy outlays on environment preservation measures which are to take at least 25% of capital expenditure in the years ahead.

The markets for beets

I wish that the Sugar Users, who are advocating a far deeper reform in the E.C. sugar regime, could tell us that with lower prices and smaller exports we are set to have higher consumption. Sugar consumption anyhow is on the rise again, even though we do have a penetration of intense sweeteners (particularly aspartame : 500,000 tonnes of sugar equivalent). The penetration rate is now above 10%, against 5% ten years ago. Situations however differ widely : from 15% in the U.K. (a large consumer of saccharin) to 4% in France, and the penetration is levelling off : last year in France two third of the new food brands were "diet", "light" or "low". We are down to one fourth this year. Apparently consumers do come back to "real", "natural" food : it is not a trend yet, but could well become one.

The new market to be found for beets is the fuel additive market which has at last, with a somewhat reluctant adhesion of the oil refiners, become a serious proposition. The potential is not clear yet, depending of such factors as growing non-food crops on set aside land, but one may say that at least several million tonnes of beets are already "booked".

As domestic consumption hopefully continues scoring better, and exports are frozen to recent levels of 4 to 5 million tonnes of white sugar, a re-direction of exports is being outlined : less sales to the big world, ranging from Venezuela and Mexico to East Africa, India and Indonesia, possibly less as well to the Middle East, more to Mediterranean and European destinations. The EC will still be the major player in the white sugar market, but that leaves large additional outlets for other exporters.

Indeed, the big world market game in the nineties is to be played in Europe. Europe, as a whole, might find itself exporting very little sugar, if any at all, to the rest of the world ten years from now. This will rest with the evolution of Cuba's and generally raw cane sugar competition's with Western and Eastern European beet.

There is another facet to this statement. If some new equilibrium is reached in European agriculture and if any benefit might be found in the integration of all - Europe's agricultural markets, the volumes of world agricultural trade might very well differ from what the GATT negociation goals are about. One cannot be in favour of the GATT approach, and at the same time push for the regional market approach, of the NAFTA type. Though they are not incompatible, choices must be made to a certain extent, and the impacts of the comparative advantages are not at all the same in each solution. In my view, sugar, like some other agro-industrial products, gives an illustration of how GATT-induced reduction of exports and supports may lead to an acceleration of regional integration, a phenomenon which I would like to see developing rather more on a voluntary and properly timed basis, than forced upon by uncontrolled events on the concerned parties.

EAST EUROPE (17 COUNTRIES)

	NOW (1991/92)	BY 2000
Number of Growers	375,000	300,000
Number without Poland	25,000	15,000
Beet area (Mil ha)	4.2	2.8
Beet sugar Production (MT)	11.7	13.5
Cane sugar refining (MT)	3.5	0 - 3.5
Sugar disappearance	17.0	18.0
Yield TS/ha	2.8	4.5
Number of factories	540	210
Total slicing capacity TB/day	1,400,000	1,250,000
Average slicing capacity	2,600	6,000
Labour force	200,000	50,000
TS/grower	31	45
(whithout Poland)	468	900
TS/factory	22,000	64,000
TS/employee	58.5	270

Source : ERSUC databank

WEST EUROPE (17 COUNTRIES)

	NOW (1) (1991/92)	BY 2000
Number of Growers	375,000	300,000
Beet area (Mil ha)	2.25	2.0
Sugar Production	17 MTWV	17 MTWV
Sugar Refining	1.8 MTWV	1.8 MTWV
Sugar consumption	13.2 MTWV	13.5 MTWV
Yield TS/ha	7.7	8.6
Number of factories	215	165
Number of sugar companies	87	58
Total slicing capacity TB/day	1,500,000	1,500,000
Average slicing capacity	7,000	9,100
Labour force	60,000	30,000
TS/grower	44	56
TS/factory	80,000	100,000
TS/company	200,000	300,000
TS/employee	280	560

(1) Source : CEFS - Includes Former DDR and 0.3 MT of molasses and cane sugar for refining