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STUDY ON THE ADAPTATION STRATEGIES OF THE SUGAR SUPPLY CHAIN AFTER THE END OF THE SUGAR QUOTAS

Meeting of the Economic Board
of the Sugar Market Observatory
12th November 2020



- Objectives and scope of the study
- Overall approach, data collection strategy, case studies
- Study methodology
 - *Study questions under themes 1, 2, 3*
 - *Approach for drawing up conclusions*



OBJECTIVES AND SCOPE OF THE STUDY

- A sound and comprehensive analysis on the **EU sugar sector's**
 - **capacity to adapt** to its post-quota environment
 - **ability to respond** to varying market and production conditions
- Specific focus on the **consequences of the end of quotas** for the EU sugar sector
- Whether and to what extent the adaptation strategies implemented in the sector ensure an **appropriate level of resilience against current and future threats**, also considering the context of the international sugar market and its developments
- **Suggestions** for strategies aimed at improving the resilience of the EU sugar sector



Products

All the products related to the **sugar production chain** from sugar beet to refined sugar, by-products and other relevant products



Geography

European Union

Focus on **specific Member States**

Focus on selected sugar producing **Third Countries** (*Australia, Brazil, India, Thailand + United Kingdom + United States*)



Actors

Beet growers and sugar producers.

Other relevant actors in the sugar supply chain (*raw cane sugar refiners, food industry, other industries using sugar, users of by-products of sugar production, sugar traders, wholesalers, packers, retailers, and final consumers*)



Time period

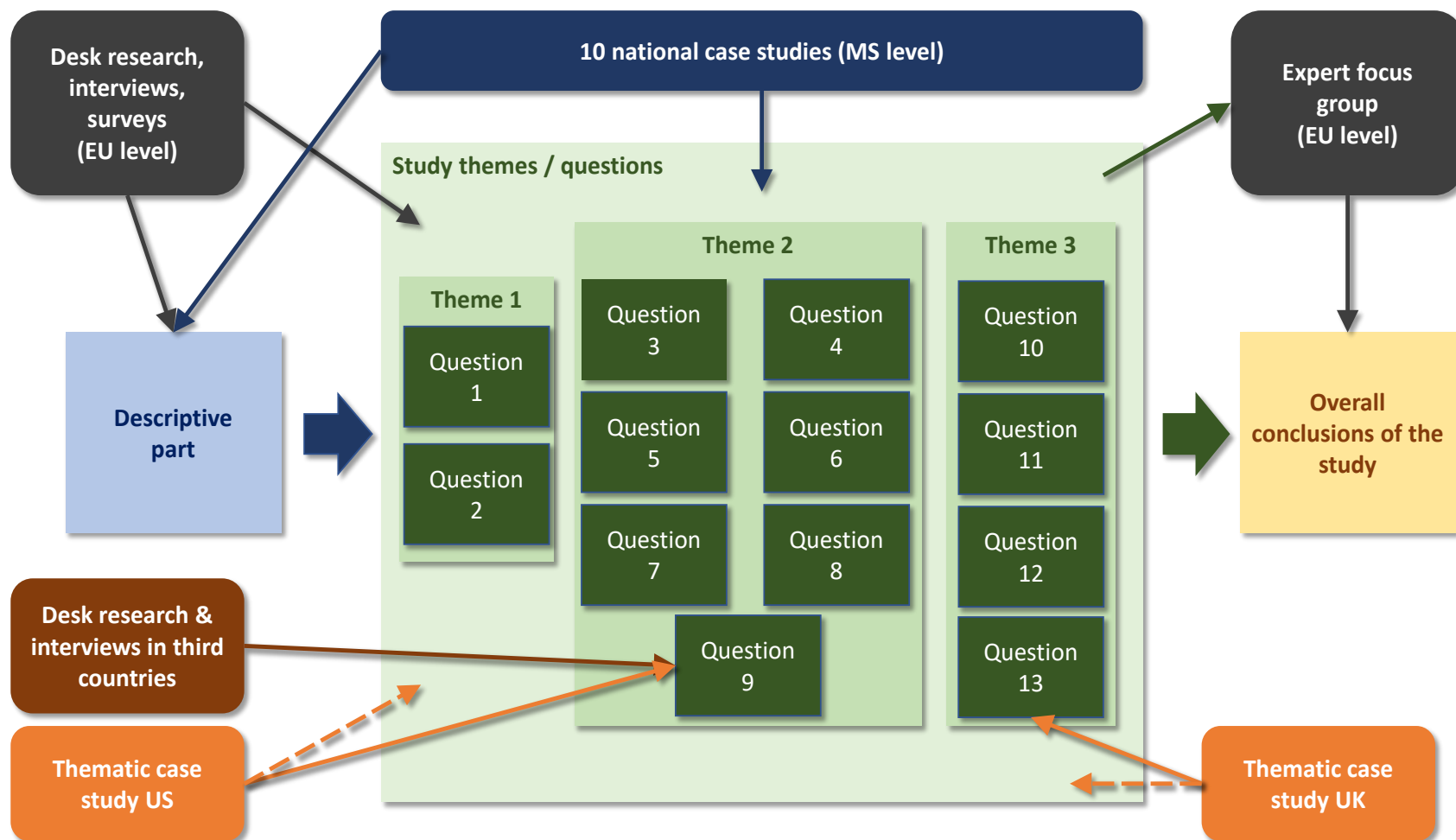
Period spanning **from the end of the quotas** (after 2016/2017 MY) **until today.**

References to earlier periods where necessary.

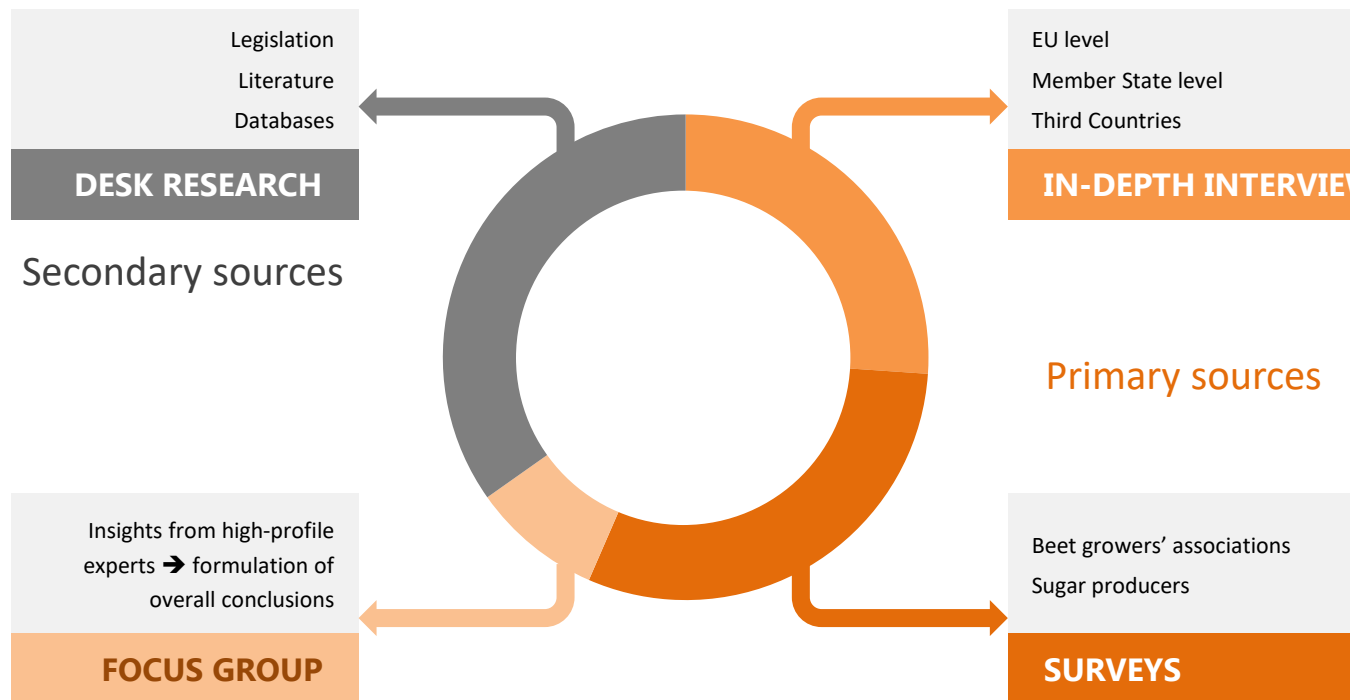


OVERALL APPROACH, DATA COLLECTION STRATEGY, CASE STUDIES

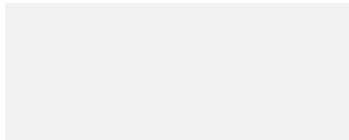
Overall approach to the study

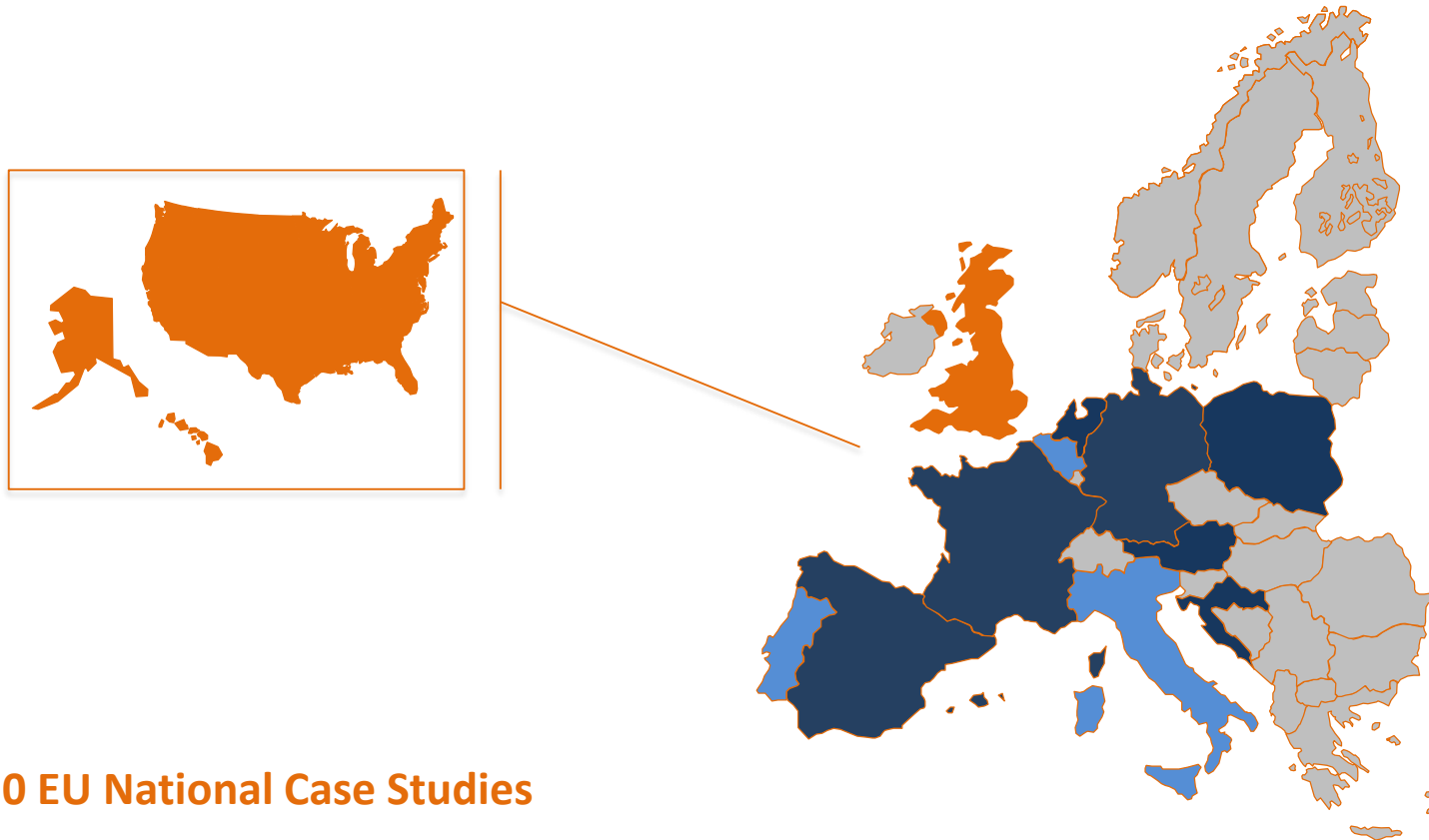


- Combination of multiple data collection methods and tools
- Multiple data collection methods and tools for collecting critical information items → improving the robustness and reliability of the evidence base for the study



- Some of the **Sugar Market Observatory members may be consulted** in the framework of the data collection activities for the study
- **Safeguard of sensitive business information:** quantitative and qualitative information provided by the consulted business stakeholders that is **not publicly available** will be **treated as confidential**





10 EU National Case Studies

- **7 required by TOR:** Austria, Croatia, France, Germany, Netherlands, Poland, Spain
- **3 additional CSs:** Belgium, Italy, Portugal

2 Additional thematic Case Studies

- **US:** Adaptation strategies and risk management in the US sugar sector
- **UK:** The UK sugar sector in the post-Brexit scenario

STUDY METHODOLOGY

Q1: What are the main drivers of the EU sugar sector's competitiveness? And, what is their effect (i.e. strengthening or weakening) on the sector's resilience?

- Assessment of the **effect in terms of resilience** of each identified competitiveness driver ("in isolation") / of meaningful combinations of competitiveness drivers.

Q2: What are the supply chain organisational arrangements and the types of contractual relations between the main actors? And, what is their effect (i.e. strengthening or weakening) on the sector's resilience?

- **Contents and functioning mechanisms** of relevant arrangements and contracts → economic implications for actors
- **Relative bargaining power** of actors → influence on relevant arrangements and contracts
- Assessment of the **effect in terms of sector's resilience** of each relevant typology of arrangement/contract

Q3: What are the main existing risks affecting the EU sugar sector as well as the most important threats expected to occur in the short, medium and long term?

- Identification and assessment of the **main risks/threats for the EU sugar sector in the post-quota environment** → “sector-specific” vs. “systemic” risks/threats
- **Classification** of identified main risks/threats: **importance** + **probability** of occurring

Q4: What are the existing private and publicly funded tools used, as well as strategies/approaches to reduce/mitigate the impact of the identified risks for the EU sugar sector?

- **Characterisation and categorisation of:**
 - ✓ **existing public & private risk management tools**
 - ✓ **strategies of sugar beet growers & sugar producers** (including full-time refiners)

Q5: To what extent the identified risk management tools address effectively the main identified risks? What are their strengths and weaknesses?

Analysis of:

- **coverage of main identified risks** for the EU sugar sector through **appropriate risk management tools**
- **adequacy** of each risk management tool vis-à-vis the **main identified risks** for the EU sugar sector
- **protection provided** by risk management tools in case of **major hazards**

Q6: What is the level of uptake of the identified risk management tools and to what extent is this level sufficient to manage the main identified risks effectively?

- **Level of uptake** of the most effective risk management tools → **actual effectiveness**
- Extent to which a **wider use** of the identified risk management tools (especially the most effective ones) would have been **more effective in terms of overall risk management** in the EU sugar sector

Q7: To what extent the overall risk management strategies/approaches of the sector's main actors address effectively the existing and anticipated risks?

- **Q3 → identification of risks / Q4 → comprehensive listing of strategies**
- Analysis of the **effects of strategies** (including combinations thereof)
- **Comparative analysis of strategies** (*taking into account: profile and capital structure of sugar producers, use of hedging tools, cost reduction strategies, etc.*)

Q8: To what extent the risk management strategies and specific tools implemented by beet growers and sugar producers increase the resilience of the EU sugar sector, and notably the capacity of beet growers to withstand substantial income reduction (or turnover reduction, in case of sugar producers) in the event of cumulative external shocks and adverse market evolutions?

- **Fact-based assessment** of the contribution of each relevant risk management strategy/tool to increased resilience

Q9: Are there any successful tools/approaches/strategies implemented by other major players at world level to address the identified risks that would be relevant for the EU sugar sector?

- Assessment of the **actual relevance in the EU context of successful tools / approaches / strategies** implemented by **other major players at world level**
- **Classification** of successful tools/approaches/strategies implemented by other major players at world level in terms of **feasibility in the EU context**

Q10: What is the effect on the EU sugar sector's resilience of the current regulatory framework at EU and national levels?

- **Fact-based assessment** of the **actual effects** of each relevant EU or national provision in terms of **improved/worsened resilience of the EU sugar sector**

Q11: How the proposed CAP and other relevant EC initiative (e.g. Farm to Fork strategy) may affect the current regulatory framework and sector's resilience?

- **Potential changes to the current regulatory framework → theoretical assessment** of their **intended/expected effects** on the EU sugar sector's resilience
- **Assessment** of the **potential effects** of the relevant provisions in terms of improved/worsened resilience of the EU sugar sector

Q12: What are the main elements underlying the price transparency and price discovery possibilities (including futures markets) specific to the sugar sector, and how does it affect the sector's resilience?

- Mapping, classification and analysis of **information sources on sugar prices** of relevance for the **EU market** → **quality of each source** in terms of **price transparency and price discovery possibilities**
- **Assessment of stakeholders' perceptions** about the **usefulness of price information / price forecasts** for **addressing external shocks and adverse market evolutions**

Q13: Is there any other element, which influence the current institutional setting of the EU sugar market? If so, present main characteristics and influences on sector's resilience.

- Identification and characterisation of **other key elements** that **influence the current institutional setting** of the EU sugar market
- **Assessment** of the **potential effects** of the identified elements in terms of **improved/worsened resilience of the EU sugar sector**

- Based on a **critical review** of relevant **elements from study questions** + outcomes of dedicated **focus group** with industry stakeholders and experts
- Set of **criteria** to assess **adaptation strategies**:
 - ✓ **Conceptually sound** (*robust and consistent with the post-quota regulatory and techno-economic environment*) vs. conceptually weak/outdated **design**
 - ✓ **Practical implementation** and **at least significant** (but preferably wide) **uptake in the post-quota environment, preferably in the EU**
 - ✓ **Tangible results in addressing one or more of the risks/threats** identified as **most serious for the EU sugar sector**
- **Classification of adaptation strategies** under the categories ‘**what works**’, ‘**wait and see**’ and ‘**what does not work**’ → identification of the **most effective** (or anyway promising) **adaptation strategies** to address the most significant threats/risks for the EU sugar sector → elaboration of the **overall conclusions of the study**

Thank you for your attention!

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