

# Südzucker

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## Ownership structure

Südzucker is the largest beet sugar company in the EU and the world, with an EU sugar output of 4.9 million tonnes and total sugar output of 5.4 million tonnes. In the EU, Südzucker accounts for 27.7% of EU production and produces 69% more than its nearest European rival, Nordzucker.<sup>1</sup>

Südzucker, while being a publicly listed company, is majority owned by sugar beet farmers. It is “controlled by a Supervisory Board, responsible for outlining the company’s strategic concepts, and by an Executive Board, which ensures that the interests of the various shareholders of the group are respected”<sup>2</sup> and manages the group’s business activities. The Südzucker group is structured into four segments: sugar, special products, “CropEnergies”, and fruit.

For beet supplies, Südzucker negotiates with VSZ (Verband Süddeutscher Zuckerrubenanbauer), which groups together approximately 19,000 farmer members harvesting some 150,000 ha. Beet farmers are paid:

- a contracted price;
- an additional amount fixed by the inter-professional agreement; and
- a dividend indexed to the company’s performance.<sup>2</sup>

This payment system can make beet production a very attractive crop on mixed farms.

In 2011/12, sugar represented 53% of the company’s revenues but generated 68% of its operating profits.<sup>1</sup> In 2012/13, the sugar segment of the business accounted for 72% of profits.<sup>3</sup> Südzucker’s sugar operations are organised via six entities:

- Südzucker AG;

- Agrana (50% owned by Südzucker since 1998);
- Raffinerie Tirlemontoise (acquired in 1989);
- Saint Louis Sucre (SLS - taken over in 2001);
- Südzucker Polska (acquired at the end of the 1990s); and
- Südzucker Moldova (acquired end of the 1990s).<sup>4</sup>

Agrana, in which Südzucker has a 50% stake, manages sugar operations in the Czech Republic, Hungary, Slovakia, Romania and Bosnia–Herzegovina. Agrana’s website notes that the company “also markets sugar and starch products in Bulgaria”.<sup>5</sup> Agrana supplies both direct-consumption sugars and sugar to the food processing industry.

## Global reach

Outside the EU, Südzucker has three factories: one factory/refinery in Bosnia–Herzegovina and two factories in Moldova.

In 2008, Südzucker established an exclusive partnership agreement with the Mauritius Sugar Syndicate, to run from 2009 to 2015,<sup>6</sup> for the marketing of Mauritian refined sugar products. This committed Südzucker to marketing “up to 400,000 tonnes of high-quality white sugar per annum in the EU” and led the company to set up the logistical infrastructure for the delivery of up to 15,000 containers per annum to end-purchasers in the EU. Deliveries commenced in 2010.<sup>7</sup>

In 2012, Südzucker took a 25% stake in ED&F Mann, a leading sugar trader, which handles just under 9 million tonnes of sugar per year. According to Südzucker, “the aim of this investment is to further integrate Südzucker into the global sugar market,”<sup>3</sup> where the company sees further scope for growth.

## Installed EU production capacity

Südzucker, directly and via its partnerships, operates 25 factories and 2 refineries in EU member states:

- 9 factories in Germany, with a total installed processing capacity of 1,230,000 tonnes;
- 2 factories in Belgium, with a sugar beet production quota of 486,235 tonnes and out-of-quota production of 88,000 tonnes;
- 4 SLS beet refineries (with a combined processing capacity of 720,000) and 1 refinery in Marseille (processing capacity 760,000 tonnes);
- 5 factories in Poland, with a beet processing capacity of 474,000 tonnes;
- 2 factories in Austria;
- 2 factories in the Czech Republic;
- 1 factory and 1 refinery in Romania, with a combined production of 100,000 tonnes per annum;

- 1 factory in Hungary at Kaposvár, with a capacity of 105,000 tonnes (this is the only remaining sugar factory in Hungary);<sup>8</sup>
- 1 factory in Slovakia, where only 18% of the beet is used for raw sugar production, while the rest is processed in other Südzucker divisions to produce animal feed and other products.

The acquisition of an additional two facilities in Romania was announced by Agrana in February 2014: Agrana handles most of the operations of the Südzucker Group in Middle and Eastern Europe.

Südzucker has responded to the emerging challenge from alternative sweeteners by investing in the production of sugar substitutes through its subsidiary Beneo. The company has also moved into sugar-related and non-sugar-related food and non-food industries. Südzucker, via Agrana, has become a leading producer of fruit preparations and fruit juice concentrate. Südzucker's growing commercial ties in China and South America are primarily in the fruit preparations sector.

This diversification can be seen as part of the company's response to EU sugar sector reforms.

## Recent developments: Refining operations and market developments

EU sugar sector reforms have encouraged both an internationalisation and diversification of Südzucker's operations. The voluntary surrender of beet production quotas (117,000 tonnes, with the closure of four factories in Germany, Austria and Hungary) in exchange for restructuring support facilitated a process by which Südzucker has invested in favourable sugar production regions. According to analysis commissioned by the EC, the Südzucker Group "is currently in a relatively comfortable position because most of its locations are situated in favourable regions... and regional competition has been downsized" as a result of the reforms.

According to Südzucker's website, "during the 2012 campaign, Südzucker harvested about 28.7 (previous year: 31.3) million tonnes of beets from a slightly greater cultivation area than [the previous] year of about 422,000 (previous year: 412,000) hectares." This was an "excellent year for beet farmers in Germany and Poland, but yields were not as high as the records set the previous year". In fiscal year 2012/13 the non-quota sugar volume was up substantially.

The company website also notes that raw cane sugar is refined at three locations within the Group:

- the Marseille refinery of Saint Louis Sucre;
- the Buzau factory in Romania (run by Agrana);
- the Brcko facility in Bosnia–Herzegovina (run by Agrana).

Collectively these three facilities consume 400,000 to 500,000 tonnes of raw cane sugar.

The Marseille refinery has the capacity to refine between 150,000 and 250,000 tonnes of raw cane sugar per annum.<sup>9</sup> The French facility has an established sugar trade into West Africa, and includes the production of Vitamin A-enriched sugar for the Nigerian market.<sup>10</sup>

The Buzau facility in Romania initially processed sugar beet, but was redesigned in 1998 to process only raw cane sugar. It is located 159 miles from Constanta, the nearest harbour, and can process 131,000 tonnes per annum. Investments have recently been made in upgrading and modernising the facility with new packing facilities. According to Agrana's website, the raw sugar

used is mainly procured from Brazil and Thailand. However, Agrana's operations in Romania also produce a Mauritius brown sugar product.

In February 2014 Agrana announced that it had reached agreement with the Romanian sugar producer Lemarco SA to acquire Lemarco's plants in Urziceni and Liesti. Agrana's CEO, Johann Marihart, explained that "Agrana's intention here is not only to increase its sugar beet production but also its sugar refining activities and, therefore, to consolidate its presence in the South-East European market".<sup>11</sup> Currently only 20% of Romania's demand of 500,000 tonnes of sugar is met through beet production, and the remaining 80% of demand is met through refining raw cane sugar.

Agrana's Brcko facility has a production capacity of "more than 150,000 tons of white sugar", using "raw sugar from the global markets as a raw material".<sup>12</sup>

In addition to the three facilities above, occasionally the Südzucker's Kaposvár facility in Hungary co-refines raw cane sugar when there is a shortage of beet.

In February 2014, Südzucker, along with Nordzucker and Pfeiffer & Langen, were fined a total of €280 million for "colluding to limit the distribution of sugar in Germany up to 2009". According to the President of the Federal Cartel Office, "the aim of the agreements... was to achieve the highest possible prices for their sugar." Such collusion is illegal. The three companies agreed to the settlement with the antitrust authority.<sup>13</sup>

In an unrelated development, an EC investigation into the same companies for anti-competitive practices was dropped in early February 2014. An EC spokesperson said that initial suspicions of "price and volume arrangements between the sugar producers in various EU countries was not conclusively confirmed by the information gathered on the spot". However, the EC did not exclude the possibility that it might "reinvestigate the sugar sector at a later stage on the basis of new elements".<sup>14</sup>

Germany's Federal Cartel Office ruling of February 2014 is indicative of the role that EU anti-trust policies play in limiting domestic market expansion, given the non-competitive oligopolistic structure of the German sugar sector where three companies dominate (approximately 80% of supplies). This means that growth of German sugar companies can only be realised beyond Germany's borders. It is against this background that Südzucker has become more international in its orientation under the impact of EU sugar sector reforms.

## Link to ACP sugar sectors

The main link to the ACP established by Südzucker is with the Mauritian Sugar Syndicate (MSS), where the agreement concluded in 2008 commits the company to importing up to 400,000 tonnes of cane sugar products into the EU annually through to 2015 (the date initially proposed for the abolition of EU sugar production quotas). This led to MSS terminating its traditional supply relationship with Tate & Lyle.

For MSS, this provided the company with ready access to Südzucker's marketing infrastructure for the distribution of Mauritian refined sugar products, thereby greatly facilitating the transition out of raw sugar exports. The link to Südzucker not only provides access for Mauritian refined sugar products to the German market but also via Südzucker's extensive network of subsidiaries, associate companies and marketing infrastructure, to markets across Europe including France, Poland, Belgium, Austria, the Czech Republic, Romania, Slovakia, the UK, Scandinavia and the Baltic states.

This enabled Mauritius to get its sugar marketed in no fewer than 18 EU member states, with 83% of Mauritian exports being marketed in countries where there are Südzucker subsidiaries or

associated companies. Overall, the joint venture established by MSS with Südzucker has greatly facilitated the shift into exports of refined sugar products and is providing experience in the packaging, branding and marketing of Mauritian sugar. The experience gained through this collaboration with Südzucker has placed the Mauritian sugar industry in a good position to respond to shifting patterns of global demand for sugar, as global demand for sugar increasingly shifts eastwards to rapidly growing Asian markets.

From a Südzucker perspective, the partnership allowed the company to offset “about half of the 870,000 tonnes of sugar quota it surrendered under the terms of the EU sugar market regulations”. According to Südzucker’s 2012/13 annual report, “the imported sugar volumes strengthen the company’s European market position,”<sup>3</sup> allowing it to consolidate the company’s leading position on the EU sugar market.

### Mauritian sugar exports to the EU by destination market (tonnes, white sugar equivalent)

	2009/10	2010/11	2011/12	2012/13
Germany*	118,047	270,774	259,151	
UK	43,615	43,614	41,733	
Belgium*	6,042	3,192	8,318	
Italy	4,702	3,599	8,055	
France *	145,824	86,073	5,204	
Poland*	1,520	1,855	2,852	
Romania*	973	1,342	2,182	
Austria*	2,340	1,594	1,849	
Greece	1,346	1,637	1,842	
Spain	145	1,910	1,354	
Netherlands	901	1,510	1,029	
Portugal	25,607	21	821	
Czech Rep.*	389	474	664	
Bulgaria	547	561	298	
Sweden	173	203	269	
Denmark	80	99	101	
Slovakia*	62	108	87	
Latvia	-	22	66	
Finland	20	-	-	
<b>Total</b>			<b>335,875</b>	

Note: \* = countries where Südzucker has subsidiary companies

Source: EC<sup>15</sup>

In addition, through the Raffinerie Tirlemontoise-owned company Candico, Südzucker imports more than 10,000 tonnes of raw cane sugar annually, from which it produces direct-consumption fairtrade-certified sugar. Fairtrade-certified sugar used in Candico direct-consumption sugars have been sourced from Kastinthula Cane Growers since 2003. Malawi, Mauritius and occasionally Zambia are the main suppliers of raw cane sugar to Candico. Overall, according to the company’s website, the Candico label represents “one of the most important importers, processors and packaging companies for cane sugar for direct consumption”.<sup>17</sup>

### ACP/LDC sugar suppliers to Belgium (tonnes white sugar equivalent)

	2009/10	2010/11	2011/12	2012/13
Malawi	4,447	9,601	8,105	
Mauritius	6,042	3,192	8,316	
Zambia	-	40	-	
<b>Total</b>	<b>10,489</b>	<b>12,833</b>	<b>16,422</b>	

Source: EC<sup>15</sup>

## Issues and prospects

Südzucker has provided an important route to market for Mauritian refined sugar exports since 2009, and highlights the synergies that can be developed between ACP exporters and EU importers and distributors in the new market context being created by EU sugar sector reforms. Südzucker also represents an important route to market for fairtrade-certified sugar from Malawi, Mauritius and occasionally Zambia. However, across the Südzucker Group, raw cane sugar for refining is sourced from both ACP and non-ACP countries, in part linked to the complex system of sugar sector market access arrangements which emerged as part of the EU enlargement process.

The current contract between Südzucker and the Mauritian Sugar Syndicate is scheduled to run until 2015. A corporate evaluation report<sup>17</sup> has suggested that with the purchase of a 24% shareholding by the Mauritian sugar company Omnicane in The Real Good Food Company, the foundation may have been established for a diversification of routes to market for Mauritian refined sugar exports. The Real Good Food Company owns Napier Brown, “Europe’s largest independent non-refining distributor of sugar”. Napier Brown sells 90% of its sugar in the UK, where it has a 12% market share. However, analysis has suggested that this market share could grow to 20% and even more in the coming years. This is based on both growing sales by Napier Brown of both direct-consumption and bulk refined sugars, and the prospect of a “substantial new refined sugar import contract... from August 2015”.

It has been suggested that the link-up with Omnicane via The Real Good Food Company could see the volume of sugar handled by Napier Brown increase by 70% (or some 175,000 tonnes – the current annual production from Omnicane’s Mauritian refinery). This could make use of raw sugar produced not only in Mauritius, but also at Omnicane’s expanding production facilities in neighbouring East African ACP countries. The conclusion of the Economic Partnership Agreement (EPA) processes of the Southern African Development Community and East African Community with the EU could facilitate this, assuming that full cumulation is allowed across neighbouring EPA configurations (i.e. raw sugar produced in one ACP country can be refined in and exported by another ACP country in a different EPA configuration, without losing originating status and hence duty-free access). This would allow an expansion of capacity utilisation at Omnicane’s modern refining facility up to the current installed capacity of 250,000 tonnes.

In addition to Omnicane’s links to Napier Brown, the Mauritian sugar company Altea has a joint venture with Tereos in Mozambique, with this potentially providing a further source of raw cane sugar for refining in Mauritius and potentially an alternative route to certain European markets. What is clear is that, in the future, the Mauritian sugar sector would appear to have several potential routes to market in the EU.

Südzucker sees an important role for imported sugar volumes in strengthening the company’s European market position. In this context, any change in orientation in the Mauritian sugar sector’s marketing strategy in response to the full implementation of EU sugar sector reforms

and the newly fluid EU market situation could lead to new opportunities for ACP refined sugar exports to the EU in partnership with Südzucker.

In addition, it should be noted that Südzucker could become an increasingly important exporter of sugar to African markets, capitalising on its established foothold in West Africa. This, however, is likely to be strongly influenced by the trade policies adopted by West African governments. The most notable recent initiative in this regard was the Nigerian government's introduction of a "backward linkages" policy, which is increasingly linking access to licences for sugar imports to investments in local sugar production and milling.

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