agritrade

Corporate profile – July 2014

Suiker Unie/Royal Cosun

Contents

Ownership structure

Suiker Unie is a subsidiary of the farmers' cooperative Royal Cosun (known as Cosun). Cosun was set up in the early 20th century by beet growers to process their sugar beet, but now also processes other raw materials (such as potatoes, chicory roots, fruit and vegetables) into a variety of goods and ingredients (mainly sugar, food ingredients, energy, chemicals and animal feed) that have multiple applications.

In addition to Suiker Unie, Cosun has a number of subsidiary arms: Sensus, which is involved in production of inulin, a fructose polysaccharide; Aviko (potato products); SVZ (fruit and vegetable products); Duynie group (animal feed and starch applications).[1] Cosun recently launched a joint venture with Dutch renewable chemicals company Avantium and Belgian sugar producer Finasucre to develop bioplastics from sugar beet. This is an area for which the industry analyst Rabobank forecasts a compound annual growth rate of 40% in the coming years, compared to 5% for bioethanol, and flat demand on food markets. Developing non-sugar and starch uses for beet is seen as important, given the forecast increase in competition on EU sugar and starch markets after 2017.[2] Cosun has thus evolved into a diversified agro-industrial group.

While Cosun has its own brand of sugars (Van Gilse), which provides a wide range of granulated and speciality sugars,[3] its main buyers are in the food industry. Cosun is seeking to respond to the needs of a range of customers for sugar-related food ingredients as part of its central focus on maximising returns to its farmer owners.

Global reach

In 2009, Suiker Unie purchased the Danisco sugar facility in Anklam[4] (in north-east Germany) as part of the divestment arrangements required by the EU competition authority following

Nordzucker's takeover of Danisco's sugar division. The acquisition was seen as "[strengthening] Suiker Unie's position in the sugar and sugar products market in northwest Europe and [providing] it with more opportunities to serve international customers".[5]

Installed EU production capacity

Suiker Unie processes the whole of the Netherlands sugar quota of 805,000 tonnes, while the Anklam plant brought along its own sugar quota allocation (112,000 tonnes) and its own established consumer base, along with the annual capacity to produce 50 million litres of bio-ethanol from sugar beet.

As a result of the EU sugar sector reforms of 2005, Cosun undertook major restructuring of its sugar operations. It took over CSM Suiker BV, and three out of its five factories in the Netherlands were closed. Suiker Unie now operates five facilities:

- three sugar factories – two in the Netherlands at Dinteloord and Vierverlaten, and one in Germany at Anklam;
- a speciality production factory at Puttershoek, Netherlands, which produces dry speciality soft sugar and icing sugar in both commercial and industrial packaging, and sugar cubes, and incorporates as a packaging unit;
- a speciality production factory at Roosendaal, which produces liquid sugar, vercosine and melado for industrial use and consumer syrups.

Cosun/Suiker Unie accounts for around 6% of EU sugar production from beet and cane.

Recent developments: Refining operations and market developments

The company's restructuring appears to have strengthened its financial position. In 2013, Suiker Unie achieved the highest sugar production per hectare in the EU. The high beet price has led to a significant increase in the company's financial yield on beet production, which has risen from €2,902/ha in 2008 to €4,871/ha in 2012. While the rise was in part attributable to the increased efficiency of the company's sugar beet processing operations, the Cosun annual report for 2012 also noted the contribution of "sales of by-products such as pulp and molasses" to the overall financial performance.

In 2013, the turnover of Suiker Unie "was lifted by higher sugar sales", which occurred at the same time as falling sugar prices on the world market. However, measures adopted by the EC in 2013 in an effort to address supply shortages resulted in "a sharp drop in prices at the end of 2013" on the EU market. This led to lower contract prices for 2014, and Suiker Unie's financial results in 2014 "will be accordingly lower", according to the company.[6]

Given its achievement of the record of the highest sugar production per hectare and the extent of out-of-quota beet production in most years, Suiker Unie would appear to be well placed to expand sugar production once EU national sugar production quotas are abolished.

Table 1: Dutch sugar production (in-quota and out-of-quota production), 2009/10–2013/14

Marketing Year	Area ('000 ha)	Yield (t/ha)	In-quota production (tonnes)	Out-of-quota production (tonnes)	Total (tonnes)	Out-of-quota as % of quota
2013/14*	73.3	12.9	804,888	143,015	947,903	17.8
2012/13	73.0	13.2	804,888	178,571	983,459	22.2
2011/12	73.0	13.6	804,888	178,480	983,368	22.2
2010/11	71.0	12.3	804,888	88,242	893,130	11.0
2009/10	72.0	13.7	804,888	168,878	973,766	21.0

* Estimate. Note: Suiker Unie processes the whole of the Netherlands sugar quota of 805,000 tonnes.

Source: EC, April 2014[7]

Link to ACP sugar sectors

Suiker Unie notes in its annual report that in March 2010, the company entered a partnership with Solidaridad, an international network to create "sustainable supply chains from the producer to the consumer", in order to promote sustainable sugar production in southern Africa".[4] Suiker Unie undertook to "contribute its expertise on sustainability" to develop the Southern African sugar sector, and to increase the volume of high-quality processed raw cane sugar delivered to the EU market.[4] According to Cosun, it adopted this strategy because of the uncertainties over the future EU sugar regime which could include "further quota reductions or higher imports".[4]

In a context of national production quotas and high EU prices, the processing of raw cane sugar makes strong commercial sense, since it improves the capacity utilisation of the refining operations and boosts corporate sugar sales volumes. This is particularly the case since the refining of raw cane sugar takes place as part of the routine beet refining operations and is thus undertaken at marginal cost. This co-refining is facilitated by the location of Suiker Unie plants next to port infrastructure and corporate ownership of a sugar terminal and storage facility that were previously used for the export of sugar.

Table 2: ACP/LDC sugar suppliers to the Netherlands (tonnes, white sugar equivalent)

	2009/10	2010/11	2011/12
Zimbabwe	-	-	25,328
Jamaica	-	-	19,375
Swaziland	-	-	1,507
Mauritius	901	1,610	1,029
Uganda	-	485	399
Malawi	-	-	292
Total	**901**	**2,095**	**47,930**

Source: EC, 'Evolution of the sugar imports in the European Union from LDCs and ACP countries', 31 May 2013[8]

These practices following the restructuring in Cosun have led to a dramatic increase in imports of raw sugar from ACP suppliers from under a 1,000 tonnes in 2009/10 to almost 48,000 tonnes in 2011/12. While the majority of this sugar (59.6%) was sourced from Southern and Eastern Africa countries, the remaining 40.4% was sourced from Jamaica. However, despite this increase, by 2011/12 Cosun still only processed 2.6% of EU imports of ACP sugar.

By 2013, it was estimated that, in all, some 100,000 of raw cane sugar imports were being processed by Cosun.

Issues and prospects

In its 2012 annual report, Cosun noted that with the abolition of EU sugar production quotas, "opportunities may arise to expand beet cultivation in the Netherlands." It added that the company is preparing for "a possible increase in export opportunities thanks to improvements in our relative cost base".[1] This would appear viable, given the existing high levels of out-of-quota sugar beet production.

However, the extent to which the farmers who own Cosun will expand sugar beet production will depend on the commercial attractiveness of sugar beet vis-à-vis the financial returns on other potential arable crops. This will be affected both by developments within and beyond the sugar sector. The corporate strategy followed by Cosun is designed to keep options open, with an overall focus on maximising revenues from "the sustainable processing of vegetable raw materials to create food products and ingredients, animal feed, non-food applications and renewable energy".[1]

Thus, in future the farmers may or may not increase sugar beet production. Even if beet production is increased, this need not lead to increased sugar production, given the active pursuit of commercial opportunities for other beet-based products. The key concern will be how to maximise revenues from the processing of vegetable raw materials into a wide range of value-added products. The future development of Cosun sugar sector activities will be crucially determined by the market opportunities available.

It is against this background that the future of co-refining of ACP raw cane sugar by Cosun needs to be considered. If remunerative market opportunities can be identified for refined ACP sugar products or packaged ACP raw cane sugar, then Cosun/Suiker Unie will have a commercial interest in maintaining and even expanding its raw cane sugar co-refining operations. If not, it will have far less interest in co-refining, given the lifting of quota ceilings on national sugar production.

The future of co-refining of ACP raw cane sugar thus needs to be seen against the background of:

a) the contraction of overall EU demand for sugar (down 6.6% between 2012 and 2023, according to EC projections);

b) the increase in the share of isoglucose in the overall EU sweetener market (the EC projects that isoglucose production will more than triple, from 3.5 to 11.5% of the sweetener market);[9]

c) the emergence and uptake of new alternative non-sugar sweeteners such as stevia;[10]

d) emerging health-related campaigns against high sugar levels in processed food products, such as the January 2014 Action on Sugar campaign, which is seeking a 30% reduction in "hidden" sugars.[11]

Cosun/Suiker Unie is keenly aware of the trends towards greater competition as well as the growing concentration of buyer power within the EU sugar market, and its corporate strategy is aimed at maintaining a diverse customer base. Currently, its top five customers account for less than 20% of company turnover, suggesting that a high level of diversification has already been achieved.

In this context, the question arises:

- in which specific EU sugar market components are commercially attractive opportunities for ACP cane sugar products likely to exist, which do not compete with a co-refiner's own beet-based sugar production and which do not confront on competition from isoglucose and other alternative sweeteners?

While opportunities could arise with reference to a range of speciality cane sugar products, the area of greatest potential growth that is not competitive with sugar production based on co-refiners' own beet or with expanding isoglucose production is the area of Fairtrade-certified sugar.

While the supply of Fairtrade-certified sugar from ACP sources currently exceeds demand, the scope for expansion of industrial demand for Fairtrade-certified sugar until recently was seen as considerable. However, this potential expansion could now be held back by recent changes in Fairtrade labelling rules. These allow a new, second, type of Fairtrade label to be utilised if only one Fairtrade ingredient is used in the manufacturing of processed food products.[12] This change is likely to boost the use of Fairtrade cocoa in chocolate products, but it could restrict the growth of industrial demand for Fairtrade-certified sugar, since it is no longer a requirement under this new scheme to use all available Fairtrade ingredients in a product for it to receive the new form of Fairtrade labelling.

There does also appear to be scope for an expansion of direct-consumption, Fairtrade-certified sugar in a number of European markets, for which clear market development strategies will need to be developed and implemented.

Notes and sources

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CTA

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