



XLII CONGRESS  
16-19 June 2009  
COPENHAGEN, Denmark

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## **DIVERSIFICATION AND CONCENTRATION OF THE EUROPEAN SUGAR INDUSTRY (The Italian experience)**

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### THE FIRST SECTORAL STRATEGIC PLAN IN ITALY.

The first sectoral strategic plan designed in a systemic way dates back to 1984 when a "Sectoral Plan" was issued. It had a conservative approach and was aimed at overcoming the production and financial crisis which affected part of the sugar industries in the early '80s and at giving back stability to this sector bringing it to levels equal to sugar national quota and consumption.

Diversification was only mentioned briefly and in general terms in the sectors concerning biofuels from beet.

Some sugar industries experienced a recovery also thanks to the contribution of the companies established ad hoc: RIBS (a public company) and Finbieticola (a private company owned by beet growers through their organisations), both working through the system of participation in share capital in order to provide funding.

### THE PLAN'S RESULTS AND DRAWBACKS.

The "Sectoral Plan" was concretely implemented through specific business plans submitted for government approval and, in the end, proved to be only partially effective:

- It succeeded in favouring the rise of new entrepreneurs who modernised the plants but only in the central-northern areas of the countries;
- It allowed the beet sector to enter the processing industry through Finbieticola;
- It was unable to have a fundamental impact on the average national productivity indexes;
- The bioethanol option remained "*on paper*", actually limited to a brief experience in the early '90s which was not developed further.

#### THE NEW CRISIS IN EARLY 2000.

The gain in competitiveness which the sector obtained on average did not enable it to overcome the critical cycle in the early 2000s which was characterised by a decrease in beet-cultivated areas and by a particularly unfavourable climate.

#### REFORM OF THE SUGAR CMO AND NEW STRATEGIC LINES.

The sugar CMO reform of 2006 represented an occasion to review the situation as a whole and to carry out a thorough restructuring of the sector based essentially on two issues:

- Reducing the sugar-producing activity, and concentrating it in only 6 factories out of the existing 19 identified on the basis of economic criteria (however, unfortunately not only on those criteria);
- Reconversion of the sugar beet system in the other districts with product diversification;

#### THE ADOPTED REGULATORY INSTRUMENTS AND PROGRAMME

The strategic design was defined in a "Plan for the rationalisation and reconversion of sugar beet production", issued in its final version in 2007 after a long preparatory stage.

The “Plan” established the destiny of each individual plant and laid down the procedures to implement it, taking into account the need to obtain approval from local authorities, (Regional Authorities which are responsible for governing agricultural policies and consumption), entrepreneurs and of social partners (workers’ trade unions) as well as the constraints contained in Regulation 320/2006 on the issues of demolitions, land reclamation and social protection.

#### THE MAIN FEATURES OF THE PLAN.

1. Restructuring 6 sugar mills which will continue production with an increase of up to a maximum of 150,000 tons. Two mills will have a bioethanol plant annexed which will be essentially produced from corn;
2. Dismantling 13 sugar mills and their reconversion into:
  - i. 2 factories for the production of bioethanol from corn and cereals;
  - ii. 7 factories to produce electricity from biomass, 6 of them will have fruit and vegetable greenhouses annexed and 1 a biodiesel plant;
  - iii. 1 factory for greenhouse fruit and vegetable productions;
  - iv. 3 factories for packaging activities, multi-functional activities, urban and residential rehabilitation and activities which are not connected to agriculture;
3. establishment of a completely new 300,000 tonne unrefined sugar refinery in the south of the country to replace an existing sugar mill located in the same region;
4. Construction of a completely new biodiesel factory.

The diversification plan of most of the system has been, therefore, aimed at developing the energy sector from renewable sources which strategically meet the environmental and energy policy lines adopted at community level.

This complex project has gathered consensus from sugar industries, trade unions – which, among other things, could access special protection measures – from the general agricultural organisations: the beet growing

organisations, although involved, were not asked to issue a binding opinion.

## THE PROGRESS IN THE IMPLEMENTATION OF BUSINESS PROJECTS.

Two years after the launching of the National Plan changes were made "*in progress*" to some of the business projects:

- 2 of the 6 sugar mills which were supposed to continue sugar production and supplement it with bioethanol plants have been, on the contrary, closed for good because of the uncertainties as to beet supplies;
- The bioethanol option has been set aside for the time being in all of the former sugar-producing sites (4) where it was planned, because of the uncertainty as to the market in raw materials; instead of bioethanol in 2 sites biomass electricity plants have been planned (awaiting a possible later resumption of the bioethanol option once the second generation technologies have been finely-tuned), while in 1 of them a plant for tomato processing was built;
- Electricity production was applied to 2 former sugar mills where it was not initially foreseen.

Apart from the changes made to the initial projects, implementation is taking place among many difficulties and hindrances due to:

- Complex national rules regulating the demolition of former sugar mills and land reclamation which are causing some concerns as to the community deadline of September 30, 2010, which we hope can be revised especially considering the sugar mills which were closed in 2008;
- Objective difficulties in identifying areas where the new facilities had to be established, especially those for energy production, because of the actual lack of areas devoted to industrial establishments which characterises many Italian regions and of the implications in relations with the competent local administrations (Municipalities and Provincial Authorities) and with the citizens (NIMBY effect);

- Uncertainties and contradictions in government policies relating to concessions for the energy systems from renewable sources.

These problems have caused a general delay in implementation schedules and different implementation stages from case to case:

- Some projects have completed the authorisation stage (refinery in Brindisi; tomato factory in Argenta di Ferrara; food packaging factory in S. Pietro in Casale; production for the HoReCa circuit in Forlimpopoli) with the opening of construction sites to take place soon;
- Other plants are completing the detailed designing stage and are about to begin the authorisation stage (Bondeno, Casei Gerola, Finale Emilia), or they do not seem to have problems for the future (Porto Viro);
- Other plants, although already designed and planned, are meeting with strong resistance from local administrations, growers' associations and the so-called "NO committees":

#### THE ROLE OF THE BEET GROWING SECTOR: FINBIETICOLA AND ANB.

In this framework of industrial restructuring the beet growing sector too plays a role through two organs: Finbieticola and the trade organisations with specific reference to the National Association of Beet Growers-ANB.

**Finbieticola** is a limited share company established in 1985 by all Italian beet growers' associations and processing cooperatives with the aim of becoming shareholders of sugar companies and to participate in the sector by developing strategies.

Until 2006 Finbieticola's strategic lines were similar to that of the sugar industries: continuity "in the sector, for the sector" without strategic intentions to move to diversification.

After the sugar CMO reform of 2006 and the launching of the "Plan for rationalisation and reconversion", the choice was to become part of the Plan's project.

Therefore, Finbieticola has assigned its shareholding in IZ with a non-proportional demerger of IZ with the purpose of gaining back full availability and management independence of resources which have been planned as follows:

- A limited and minority shareholding in the cooperative sugar industry by underwriting a share capital increase in CoProB by 7 million euro;
- A reconversion of the two sugar mills which, following the demerger of IZ, were assigned to them according to the general guidelines of the "Restructuring and reconversion plan";

A diversification strategy in favour of the agricultural sector split into 3 "*business units*": renewable energy, services for agriculture and the food sectors.

The defined *corporate* position, therefore, is aimed at:

- Creating value through the complete and integrated use of agricultural productions, overcoming the hierarchy of product, by-product, reject, waste, stating the notion of co-products;
- Tapping into the Group's and partners' resources, promoting the development of new agricultural-industrial initiatives through the establishment/participation in joint ventures with other agricultural, industrial, technological and financial firms;
- Gaining and defending the competitive position of the Group by continuously innovating products:
  - by acquiring technologies (licences, patents, "technological packages")
  - by acquiring shareholdings in innovative companies with high growth potential which are interesting in terms of products/markets/technologies.

**ANB** is an association which was established in 1917 as a federation of local trade unions. It acquired legal status in '32.

In the '80s it started acquiring shareholdings in the sugar industry through Finbieticola, in which it owns today approximately 68% of the share capital, with management and coordination responsibilities.

ANB, too, is trying to provide answers to the crisis affecting the sugar beet growing sector through the same pattern which characterises the National Plan and the business plans of the companies related to it: continuity in the sugar beet growing sector, on the one hand, and adjustment to the new operational areas, on the other.

The purpose of this is to regain economic spaces which would otherwise be doomed to fall below the vital values and to preserve representation and political-organisational influence which is useful for the members, both beet growers and producers of other crops connected to the launching of energy-producing systems (but not only of the latter), which might be protected by the activities carried out by ANB.

This implied a change in the by-laws which took place in 2008.

For this project to be implemented it is first of all necessary to establish new crops and new systems and ANB has taken on the commitment to support their development, through the use of two tools:

- Finbieticola, whose strategic objectives are the ones mentioned before;
- SADA, commercial company which up to now has been involved in the selling of beet seeds, which will expand the commercial activity of technical tools and promote the spreading of new crops, characterised by market rules which are completely different from those which, up to now, have regulated the sugar beet growing sector.

The function of the Association is, therefore, evolving and this is the challenge the ANB leaders are committing themselves to, looking at history, tradition and the nature of the Association, - ideals which have played an important role in the destiny of the beet growing sector, while, at the same time, looking at the opportunities/needs for the future.