NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Feb 2018

UK beet price tracker

£/adjusted tonne	Base price, £/t	Bonus, €/t (latest month)	ECB £/€ rate (monthly average)	Bonus, £/t (latest month)	Bonus, £/t (cumulative to date)
2018 one-year contract	**£22.50**	*0*	-	*0*	**0**
2017 three-year contract	**£22**	*0*	-	*0*	**0**
2018 three-year contract	**£22.50**	*0*	-	*0*	**0**

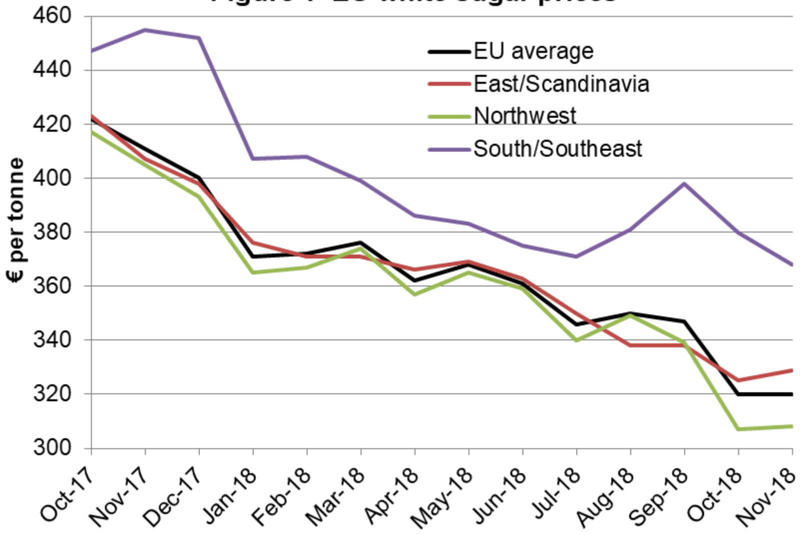
Prices before adjustments. Bonuses apply when EU price >€475/t, and are liable to exchange rate fluctuations.

Highlights

- The average EU white sugar price in November 2018 was €320/t.
- EU imports remain lower than this time last year, suggesting EU processors still selling aggressively
- Südzucker announce closure of two German sugar beet factories

The average EU white sugar price remained at €320/t in November 2018, despite many expectations of a slight rise in the average value over the month. Regionally, average prices in north-west Europe (BE, DE, FR, UK and NL) rose only €1/t to €308/t, while values in Eastern Europe and Scandinavia were only a little above the EU average (see figure 1).

Figure 1 EU white sugar prices



Source: EU Commission

It was thought that the particularly low values in October broadly reflected contracted sugar sales made pre-campaign before EU spot prices picked up. However, these values continuing into November show that spot trade has had very little impact on average prices, which suggests we are likely to see the low contracted price reflected throughout much of the marketing year.

Relative to current prices and the price sugar can be imported at, such aggressively low prices should mean that even with the smaller crop, beet processors in Europe should be able to maintain market share. With the lower EU yields this year, many forecasts anticipated imports to rise slightly in 2018/19 compared to 2017/18, yet to date in the campaign EU sugar imports are actually lagging behind last year. A smaller demand for imports would back up the idea that EU beet processors have continued to price competitively to secure sales and wash excess stocks out the system, meaning that prices would be unlikely to pick up substantially this campaign.

The reason for aggressive selling, however, would be to bring down stocks heading into 2019/20 making the EU more likely to be in sugar deficit again and able to price at a premium to the world price. This would reflect in returns available to both growers and processors, including in the UK. The latest EU Commission 2018/19 forecasts project the lowest level of carryover stocks since 2010/11, even without a drop in imports. Nonetheless, the aggressive post-quota strategy of maximum throughput and pricing competitively for market share that most EU processors have followed has started to have its victims—see overleaf.

The largest European sugar processor, Südzucker, has announced a restructuring programme including two factory closures, possibly with more to follow. It is hoped this will help rebalance the EU market and increase the EU premium to the world price in the longer term, but this will not necessarily be the case.

Südzucker's announcement comes somewhat as a surprise, having been one of the main proponents of the aggressive strategy in the post-quota market. While other companies (notably British Sugar and Suiker Unie) have offered beet prices that encourage growers to reduce area in 2019/20, Südzucker was one of the few companies to offer price incentives to maintain plantings. Recent financial results have shown the difficult financial position the company is in this year, although recent losses are small compared to the profits made across the quota period, and the market view is that other processors such as Tereos in France are much more vulnerable financially.

- Seeking €100m cost savings.
- Aiming for 700Kt reduction in sugar capacity (c.4% 2018/19 EU production).
- Could imply 6-8 beet factory closures of the 29 they operate across Europe.
- Efficiencies will also have to be found in their remaining operations to make these savings.
- Focus on the better returns they make from EU sales and reduce exports.
- Hoping other processors follow suit.

Figure 2 Sudzucker sugar factories

The implications of this move will depend on whether other major producers follow, or whether competitors use Südzucker's withdrawal to expand their own opportunities. The more companies change strategy, the more the EU market is likely to be in deficit and hence prices to rise over and above any cyclical rise in world prices, reflecting in beet prices paid to growers.

The reality of operating a beet factory, which is basically one large fixed cost on top of the company's overheads, is that cutting down on throughput does not improve margins. Processors ideally want factories to operate at full capacity or not at all, leading to the seemingly drastic about turn from Südzucker. It may be that to make their projected savings, some of the beet currently processed in the two closing plants will be processed in other Südzucker factories, extending campaigns there and using those plants more efficiently.

Südzucker's move does expose a presumption that the large beet processors can control the EU market, and a short-termism with regards to price. Remember 1) markets are always cyclical and 2) without quotas, cutting production can simply lead to another company taking the opportunity to increase market share. In a competitive market, one company cannot control supply and price in the market.

Should other EU beet processors take the opportunity to fill the gap, this will help them further spread fixed costs. While this reduces the chance of the EU price premium increasing over the world market, world prices will pick up again as the cycle turns. Even if many processors follow suit with Südzucker, unless all do they will not have the control over EU prices they believe they have, and those that don't follow suit could have a lot to gain.

At the same time, the next year bumper yields come round again, processors will still want to export, and the lesson from 2017 was that the largest export buyers want secure supply. Large industrial buyers, wherever they are, do not want a supplier that regards them as an overflow tap. Therefore it is entirely possible that, despite this move, EU processors will face the same difficulty of selling large stocks at low prices next time yields are strong.

Next issue expected: Friday 8 March 2019

Your NFU Sugar:
Helpline: 0370 066 1974

Written by **Arthur Marshall**
Arthur.Marshall@nfu.org.uk 02476 858 796