NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

11 Oct 2019

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

- NFU Sugar and British Sugar have announced terms for 2020 one year and 2020-2022 three year contracts
- The new contracts offer substantially more potential upside than previous three year deals
- Reports of EU prices for 2019/20 continue to sit in the low €400s in the main producing regions.

NFU Sugar and British Sugar announced terms last month for both a one and three year contract to be available for 2020. The one-year contract price will be £19.60/t, with no crown tare reduction and based on the current sugar content payment scale. This is equivalent to a price paid of £20.99/t on a crowned basis. The three-year contract price will be £20.45/t, with no crown tare reduction. This is equivalent to a price paid on a crowned basis of £21.90/t in year one and an equivalent £21.18/t in years two and three. Growers on the 2018 three year contract may transfer onto the 2020 three year contract, either starting in 2020 or for two years from 2021.

As with current contracts, both include a market-related uplift element based on the EU reference price for white sugar. For the one-year contract, growers will receive a 15% share of the price above €375/t (as with the 2019 one-year contract). For the three-year contract, growers will receive a 25% share of the price above €400/t.

The new contracts visualised

The amount each contract pays out depending on the EU reference price is shown in figure 1 overleaf. Existing and previous contracts are also shown for comparison.

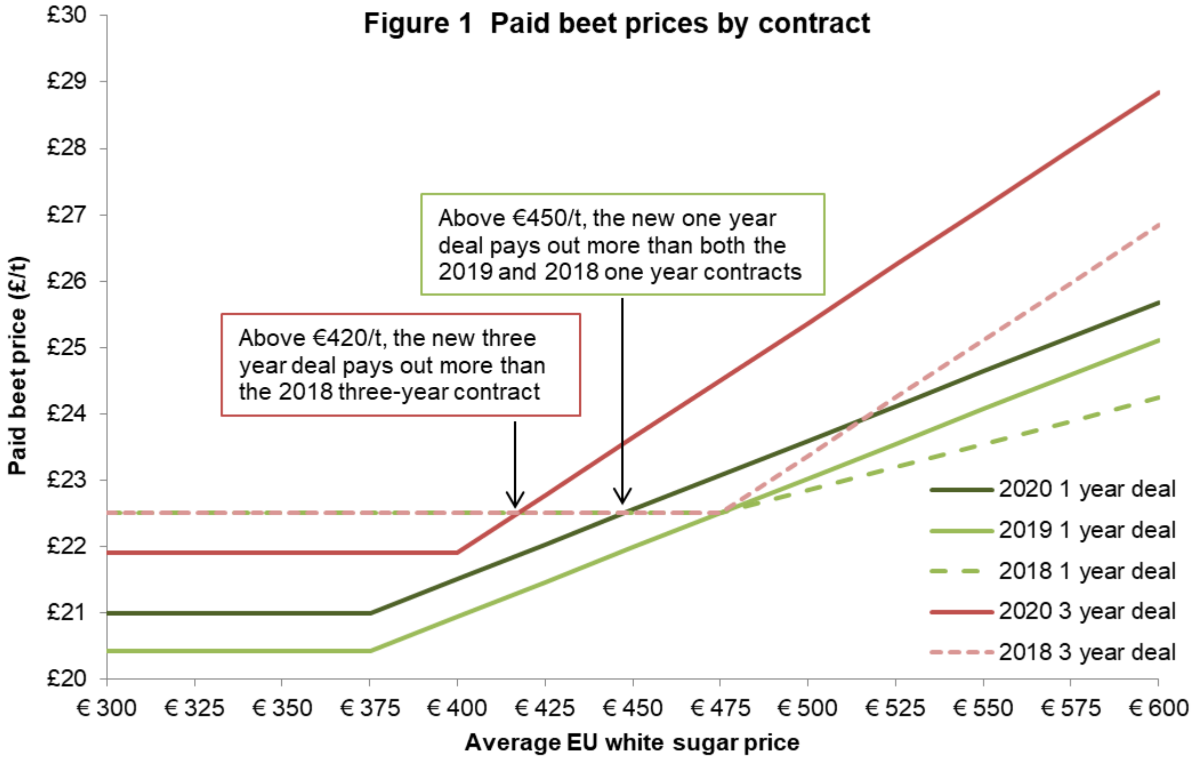
With the improved base price, the new one-year contract pays out more at all price levels than the 2019 one-year contract. Furthermore, at EU prices above €450, the paid price is higher than the 2018 one-year contract which had a £22.50/t base price but less share of the market upside.

Although the base price is lower, the new three year deal contains substantially more potential upside than the current three year deals. For example, at current exchange rates, the new deal pays out more than the 2018-20 three year deal once EU sugar prices reach €420/t, while at a market price of €475/t this contract pays out c.£2/t more than the 2018 three year deal.

The overall paid price on each deal is shown in figure 2.

Figure 2 Paid beet price on current payment basis

EU average white sugar price	2020 one year deal	2020 three year deal
€300	£20.99	£21.90
€325	£20.99	£21.90
€350	£20.99	£21.90
€375	£20.99	£21.90
€400	£21.51	£21.90
€425	£22.03	£22.77
€450	£22.55	£23.64
€475	£23.07	£24.50
€500	£23.59	£25.37
€525	£24.12	£26.24
€550	£24.64	£27.11
€575	£25.16	£27.98
€600	£25.68	£28.85



Prices on current paid basis including crown tare and existing sugar scale, excluding delivery bonuses, at €1=89p

Paid price adjustments from 2021/22

The change in equivalent price on the three year deal from 2021/22 is because the sugar scale will be changing in 2021, and the removal of crown tare will also be reflected in paid prices from then. This will mean growers are paid for more tonnes. The lower paid price in 2021 offsets the increase in tonnes growers are paid for on average, meaning that across the crop, the paid price in year 2 costs British Sugar the same as in year 1. However, the lower price will not precisely offset the increase in tonnes on an individual grower level in years 2 and 3 – some growers will gain slightly and some will lose out slightly. A full description of this change is on our website.

Sugar measurement changes in the tarehouse

Currently, and up until 2021, the reported sugar content of each and every sample passing through the tarehouse is lowered by 0.02% from the measured value. This was agreed after British Sugar moved from multi to single bladed saws in the tarehouse in 1995. This was to account for the fact that tests showed single bladed saws produced a sample that when tested indicated a higher sugar level than the previously used multi bladed saws. Put simply, this factor existed to ensure British Sugar was no worse off from the introduction of new saws that extracted slightly more sugar from the beet when sampling.

NFU Sugar saw this continued reduction as completely unjustifiable and wholly against our principle of seeking transparency and simplicity. From 2021, this factor will no longer be taken off in the tarehouse.

The removal of the 0.02% reduction builds on the removal of the 6.61% crown tare NFU Sugar negotiated last year to ensure growers are paid for each and every tonne of beet delivered to the factory and every tonne of sugar measured in a load.

Mileage changes at Newark

For Newark contracts only, the paid mileage cap will reduce to 55 miles in 2021 and 50 miles in 2020. All other factories will remain at a 60 mile paid cap. After increasing paid mileage at all sites in 2017 from 50 to 60 miles in order to bring more growers in, British Sugar's priority this year was to reduce tonnage at Newark. This is because the subsequent contracts British Sugar had signed up had left Newark oversubscribed and beet supply imbalanced compared to factory capacity.

NFU Sugar ensured this reduction was delayed a year and phased in to give growers time to adjust cropping plans. It also allows Newark growers who wish to sign up for 3 years, knowing the mileage terms will change during the contract, will still be able to do so. NFU Sugar also ensured that, should these changes result in any spare capacity at Newark, the first call on this capacity will be with growers who are within 50 miles of Newark but currently having to pay the cost of over 60 miles of haulage to Wissington. This is designed to give these growers the opportunity to contract to their nearest factory and to reduce overall haulage costs for British Sugar.

Alternative bonus mechanism post-Brexit

The current bonus mechanism is an EU reference price formed of actual sugar sales data collected from EU processors by the European Commission. If the UK leaves the EU and UK sugar sales data are no longer included in the EU reference price, that measure will no longer be an appropriate way to determine an accurate market related uplift in UK beet prices. This is especially the case in a 'no deal' scenario, given the UK Government's announced tariffs that would apply to white sugar imports, meaning the EU reference price would be likely to go down at the same time as British Sugar would be able to secure higher prices for its sugar.

The alternative bonus mechanism agreed with British Sugar is to ensure UK growers are not disadvantaged by a reduced likelihood of the market bonus paying out due to Brexit. The mechanism will operate as below:

- In the event that British Sugar no longer feeds prices into the EU average sugar price, or earlier by mutual consent, an alternative market bonus mechanism will apply from the month this takes effect.
- The NFU will select an independent third party auditor employed to calculate the bonus and will fund half their cost
- The auditor will make two calculations per annum, disclosing only the bonus they derive.
- The auditor will:
    a) review the historic prices submitted by British Sugar to the European Commission between October 2017 and September 2019. This will determine the average difference between the EU and British Sugar prices over this period.
    b) calculate the average historic monthly volume of white sugar from British Sugar sold to other EU countries included within British Sugar's monthly price data
    c) twice annually analyse the current market years' monthly UK sales which meet the same specification as currently reported in the EU average price.
    d) analyse the current average price of British Sugar's export sales which meet the same specification
    e) calculate the weighted average of points c and d, but only including export sales up to the total vol ume calculated in point b.
    f) compare the difference between the average British Sugar price calculated in point e and the EU av erage price, with the original difference calculated in point a.
- Where the comparison in point f shows that the different has changed from that in point a, then this would be added or deducted from the published EU market price to give a rebased UK equivalent price to be used each month to calculate any bonus as per the current agreed formula
- The monthly bonus amounts derived would be accumulated up to each instalment period

The average EU white sugar price in July 2019 was €320/t, little changed from the previous month's price. Pricing indications for the new campaign, however, continue to be higher. LMC reports price indications in the low €400s ex-works in the main Western European mainland beet producing areas, with higher values on the periphery and in the UK. Sugaronline's new sugar price reporting also indicated similar levels also in September trading. While not triggering a market bonus in 2019/20 for those growers on three year deals, if average EU white sugar prices do indeed sit at this level across the marketing year, it would trigger a market uplift of approximately 50p-£1/t on the 2019 one year contract.

This comes as EU production forecasts for 2019/20 continue to drop, with the latest LMC forecast cutting production by 0.5Mt from their previous estimate, now to within 0.5Mt of 2018/19 production. Meanwhile, the EU Commission lowered their 2019/20 forecast in September to a figure below 2018/19. Forecasts of the world market deficit in 2019/20 and, tentatively, 2020/21 have also continued to increase, pointing towards tighter supplies in the medium term.

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