NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

11 Dec 2019

UK beet price tracker					
£/adjusted tonne	**Base price, £/t (crowned equivalent)**	**Bonus, €/t (latest month)**	**ECB £/€ rate (monthly average)**	**Bonus, £/t (latest month)**	**Bonus, £/t (cumulative to date)**
2019 one-year contract	**£20.42** (contracted at £19.07 / zero crown)	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 (2017 & 2018 contracts) or >€375/t (2019 contract).

Highlights

- The average EU white sugar price in October 2019 was €332/t
- Poor weather is not limited to the UK, with world deficit forecasts for 2019/20 continuing to rise.
- The seed order offers choice and competition but act promptly to secure your preferred choices

The average EU white sugar price in October 2019 was €332/t, only slightly higher than September. There has not been the expected step upwards in average EU prices with new contracts for 2019/20 sugar (generally negotiated at higher prices than 2018/19) beginning to be delivered and being reflected in the average. However, this year's price levels are not completely reflected in the reported price yet as a number of contracts are negotiated on a calendar year basis, which could lead to an uplift in the prices reported from January onwards. Furthermore, the reported averages for 2019/20 will continue to be weighed down by a portion of multi-year sugar contracts agreed ahead of 2018/19 which are likely to be at much lower prices to those agreed ahead of 2019/20.

The poor weather we have been having this autumn has not been restricted to the UK. As we discovered at the recent World Association of Beet and Cane Growers (WABCG) conference, which NFU Sugar, as a member, attended at the end of November, sugar growers in many places around the world are having a challenging season. While not all regions are suffering from poor weather, at the end of November the International Sugar Organisation (ISO) revised its estimate of the 2019/20 world sugar deficit from 4.76Mt expected in September to 6.12Mt, with global production now forecast over 3% lower than last year's. Their preliminary estimate for 2020/21 suggests a second consecutive deficit at 3.5Mt.

Wet harvest weather was reported across most of Europe, but most dramatically in the US beet regions leading to substantial yield loss. Rain through the summer was followed by exceptionally high rainfall in autumn, meaning harvest began late. Then, fields almost immediately became un-harvestable with early snowfall. Crops that were not lifted before the ground froze for the winter have had to be written off—in the Red River Valley region, where around 10Mt is of beet is grown, 1 in 3 crops have been lost this way.

The rain would certainly be welcome by Australian cane growers, suffering from dryness which has hit 2019 yields. There is more optimism for the 2020 crop, provided rain picks up but, longer term, growers are facing increasing regulation on use of inputs which could impact productivity.

Growers from Central and Southern America also reported lower yields, with a common theme being lower cane quality as a result of ageing crops. Unlike beet, cane growers can harvest a number of crops from cane ratoons before replanting, but yields typically fall in each crop harvested as cane age rises. Yield gains from replanting ratoons have to be balanced with the cost of replanting. These countries reported the low market prices reducing the appetite for growers to renew cane crops, leading to the average age of cane rising, hence yields falling.

Reports from African growers were varied, with some countries much more positive on yield prospects than growers elsewhere in the world. However, cane age was a common theme here too, especially in countries that tend to export to the EU such as eSwatini and Mauritius. In the case of the latter, improved weather should nonetheless benefit yields for the 2019/20 crop, in common with Mozambique, Kenya and Cote d'Ivoire which also reported an improved outlook after smaller crops in recent years for various reasons. However, these three do not have as much impact on the European market as eSwatini and Mauritius.

Seed ordering—choice and value but act fast

You will have noticed that seed orders were issued much later than usual this year, but for the first time the order contains a choice of pellet providers for growers. This has meant NFU and British Sugar's negotiations with suppliers took much longer than in previous years, and had to be completed before a price list and order form issued.

Seed is available on a first come first served basis, with some varieties already sold out. On submitting your order, British Sugar have told us you will either receive a confirmation of receipt or be contacted by Grower Services to discuss alternatives if any stock is sold out. As orders had to be placed from the joint NFU-British Sugar seed account ahead of receiving growers' orders, variety combinations have been ordered based on anticipated demand and availability from breeders. In many cases variety volumes are limited—Vixen, for example, has proven popular and sold out despite the seed account purchasing the entire seed stock available from the breeder.

The lengthy negotiations with seed breeders and pelleters have meant NFU and British Sugar have been able to secure improved prices and choice in seed treatments for UK growers. The NFU was determined to improve the range and value of seed technology available to growers, undertaking an extensive process to introduce competition into UK seed pelleting, which for decades has been exclusively undertaken by Germains.

This process brought several interesting and competitively priced providers to our attention and substantially drove down the cost of Force and Vibrance. We are now working with other seed processing companies, including the German company SUET, aiming of introducing trial quantities of their primed and pelleted seed in 2021.

Simultaneously, KWS came to the end of a three-year BBRO trial programme on their pellet technology demonstrating that their EPD2 pellet has equivalent performance on yield and emergence as the Germains Enrich 100 product. As a result NFU and British Sugar have negotiated an arrangement where KWS varieties are available in both pellet formats, providing choice, value and competition for UK growers in 2020 and beyond.

A recent ISO study on beet and cane payment systems around the world has highlighted the importance of aligning rewards and incentives in contracts correctly, and of promoting profitability across the industry. The study highlights how different fixed and flexible pricing structures come towards achieving these aims.

An important message was, in order to promote profitability of the whole industry, growers' rewards should reflect their own performance, not the performance of the mill or factory they are supplying. This has been a priority for NFU Sugar in recent years in negotiating a contract that pays growers for all the sugar they deliver, without historic deductions such as crown tare that under-represent the amount of sugar has actually grown.

ISO also noted that, while fixed beet/cane price systems have advantages for planning and administrative simplicity, there are drawbacks as these can slow down reactions to market signals and disincentivise investment. Flexible price systems, such as revenue sharing or market linkage, can pass on market signals to growers more transparently, but can also be more costly to administer. For NFU Sugar, a flexible price contract must also fit with the first point in the ISO study—it should reward growers for their own performance, not the performance of the factory or mill they are supplying. This is partly why the revenue sharing contracts experimented with in various European countries that paid growers entirely based on the sugar sales price achieved by the processor have not been successful and have had to be revised for 2020. However, we believe that if a flexible price contract references an independent market index and gives growers the ability to manage price risk alongside exposure, it could be successful.

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Your NFU Sugar:
Helpline: 0370 066 1974

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