INTERNATIONAL CONFEDERATION OF EUROPEAN BEET GROWERS
Boulevard Anspach 111/9 – 1000 B-Brussels
http://www.cibe-europe.eu • cibeoffice@cibe-europe.eu • Tel: +32 2 504 6090

EU beet sugar market update
Impacts of COVID-19 crisis

• 11 May 2020 •

In order to streamline the monitoring of the impacts of the COVID-19 crisis on the EU sugar and ethanol markets, CIBE is establishing a regular short **market report**. **This short report updates the report dated 27 April 2020. It includes the latest analysis by the experts of the Sugar Market Observatory which have met on 6 May 2020 and confirmed the negative outlook for the EU beet sugar sector**.

Production and consumption in the EU

During the meeting of the Sugar Market Observatory, most experts confirmed that the loss of sugar consumption due to lock-down measures and in particular due the closure of bars, restaurants, etc. will negatively impact the **EU sugar demand for MY 2019/20.** In its Short-Term Outlook dated April 2020, the EU Commission already considered a 1% decrease of EU consumption in 2019/20 compared to 2018/19. It is possible that this decrease in EU sugar consumption could grow further. It is to be recalled that the sugar trader Czarnikow has reduced its EU sugar consumption estimate by 700,000 tonnes or 4% for the rest of 2019/20 due to the coronavirus outbreak and by 2 Mt (or 1%) globally in 2020 compared to 2019.
Ethanol, like fossil fuel, is also suffering from the health crisis and travel restrictions. Biofuel prices remain close to their lowest levels in the USA and Brazil. The decrease in fuel and ethanol consumption in the EU could also impact the use of sugar for ethanol production, while significant volumes of American and Brazilian ethanol could flood the EU ethanol market if no measures are taken.
The discussion on the EU sugar balance for MY 2019/2020 confirmed an **increase of EU ending stocks** (above 2 Mt) compared to previous estimate. Adding the uncertainties related to Brexit, there is a clear **cocktail of bearish fundamentals in the EU market**.

Prices and trend

After 7 months of increase due to better EU market and global fundamentals, the decrease in **spot market prices in the EU is confirming** (minus 3% since February 2020). According to analysts, EU spot market prices decreased further on the first week of May. There is currently a consensus among analysts that EU sugar prices would now move closer to the sugar reference threshold of €404/t than to the €500/t expected before the sowing season had started in the EU. **This crisis is coming on top of 28 consecutive months of EU average sugar market price well below the sugar reference threshold**.This €100/t of loss in sugar value, directly

related to the consequences of the COVID-19 crisis, will represent for our **EU sugar beet sector around €1.6 billion loss in value for the season to come.**
On the global markets, raw and white sugar prices In New York and London have fallen by respectively 30% and 20% since February 2020 - and to levels not seen in nearly thirteen years on the New York futures market. As the May contract expired in New York, prices increased slightly during the last days of April, but still remained at a low, and we can fear that low values are here to stay. Unfortunately for producers, **a further drop in prices cannot be ruled out, or at least the chances of a rebound appear very limited in the current context**.
Persistent weakness in the Brazilian real against the dollar is a major bearish factor for world sugar prices. The real had plunged to a new record low of 5.8744 reals/USD on 7 May. The weaker real is bearish for sugar since it encourages export selling by Brazil's sugar producers. In fact, sugar prices expressed in Brazilian currency have remained quite stable, while they have plunged in Dollar and Euro.
World sugar prices also remain under pressure from the recent forecast from Conab, Brazil's official government forecasting agency, which communicated that Brazil's 2020/21 sugar production will climb +18.5% y/y to 35.3 Mt as millers divert more cane juice to produce sugar as the outlook for ethanol has been decimated by drops in consumption and prices. Conab projects that Brazil's mills will divert 42.4% of cane juice to produce sugar in 2020/21, up from 34.9% in 2019/20. The development of both sugar and ethanol prices resulted in a drop of the sugar/ethanol parity at around 8cts/lb. The **Brazilian government is looking at support measures for the sugarcane and ethanol sector**. These measures should be announced shortly. “The government cannot permit that this sector suffers losses,” said Brazil’s Minister of Agriculture. In addition to raising the gasoline tax, the sector requested a reduction in the PIS/Cofins tax on the biofuel and the creation of an emergency credit line for stocking ethanol. The industry association in Brazil UNICA requested in particular the need to finance 25% of the estimated ethanol production, which means a credit of nearly BRL9 billion, or $1.7 billion, to stock one quarter of the ethanol production during the 2020/21 crop.
The weekly Commitment of Traders (COT) report showed that funds boosted their net-short sugar positions on New York market by +17,188 contracts in the week ended 28 April, to a 5-month high of 82,326 contracts. Since then, they have reduced their positions, but this has been compensated by an increase in gross commercial position.
In the EU, the price for biofuel ethanol decreased by more than 30%, from €64/hl before the COVID-19 crisis to €44/hl on 20 March 2020. It is traded currently at around €48/hl for the May 2020 contract.

EU Trade with third countries

The **fall in import parity** in the EU resulting from the decline in world prices to around €350/t for zero duty preferential imports is particularly worrying. This is well below the EU sugar reference threshold of €404.4/t. WTO sugar CXL *erga omnes* TRQ with a reduced duty of €98/t has started to enter the EU market reflecting the relative attractiveness of EU market and the very low level of sugar import prices. According to latest figures by the EU Commission, by mid-April EU total imports in 2019/20 were 25% higher than last year at the same period and EU total exports in 2019/20 were 56% lower than last year at the same time. There are few incentives for EU exports at this time. **By end of February 2020, the EU’s sugar trade deficit was already higher than that of the last marketing year**. It is expected that the net importer position of the EU will be higher this MY 2019/20 than in MY 2018/19.

In the face of this jeopardy, there is **an urgent need to monitor the EU spot price closely and to implement exceptional measures**. These safeguard measures could take the form of import safeguard measures to prevent the EU sugar market price from falling below the sugar reference threshold. Furthermore, in the light of a possible deterioration of the EU balance sheet due to this crisis and with the strong uncertainties that remain in relation to Brexit, implementation of safety nets and of Article 222 should be considered.
A third year of non-remunerative prices for the EU sugar beet sector and in particular for EU sugar beet growers would be catastrophic and unsustainable. It is to be added that the conditions are also of concern for sugar beet growers: dry conditions after sowing but also very early pest infestations (alert thresholds have been reached for aphids and weevils) are negatively impacting the emergence and the first growth

stages of the beet crop. In many regions, sugar beet growers are struggling with the lack of effective sustainable alternatives to the ban of neonics in pelleted beet seed. **The threat of a combination of low prices and low yields is looming**.

This shows how important it is to pay attention to alternative tools and to accompany closely the increased banning of active substances. Reducing the crop protection toolbox too quickly and too dogmatically leaves farmers unable to combat in a sustainably way against naturally occurring threats. If any objectives are introduced in the future Farm to Fork Strategy, they should be carefully defined and assessed in the light of availability of alternatives tools. The Farm to Fork Strategy and the revision of the Directive on the sustainable use of plant protection products must address the gap between the rapid loss of active substances and the availability and costs of new tools to ensure crop protection.