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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

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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 7 April 2020 and confirms the negative trends observed**.

Production and consumption in the EU

The COVID-19 crisis is definitively leading to disruptions in sugar markets. The decrease in demand is affecting major countries in the world. In India, the largest country in terms of sugar production and consumption, where the sugar demand peaks in May-June, the lock-down is having severe impacts. The director general of the Indian Sugar Mills Association (Isma) has stated that “sugar offtake had already dipped by 1 Mt in the past 45 days owing to the decrease in market demand and transport restrictions”. The Indian sugar industry is calling for more subsidies in addition to the export subsidies from which they already benefit.

Despite some EU consumer move towards an increase in the use of sugar for direct consumption in the EU due to lock-down measures, the loss of sugar consumption due to the closure of bars, restaurants, etc. is expected to negatively impact the **EU sugar demand.** In its Short-Term Outlook dated April 2020, the European Commission has considered a 1% decrease of EU consumption in 2019/20 compared to 2018/19. The decrease in fuel and ethanol consumption in the EU could also impact the use of sugar for ethanol production.

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.

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 2% in two weeks). 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 €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 have fallen by respectively 30% and 22% since February 2020 - and to levels not seen in nearly thirteen years on the New York futures market. 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.
New York raw sugar and London white sugar prices pursue their plunge as all economic factors are turning red. On 24 April 2020 **July New York raw sugar sank to a contract low and London white sugar fell to a 7-month low. The nearest-futures May and July New York raw sugar contracts sank below 10cts/lb on 24 April 2020.** This decreasing trend on all future terms is worrying; speculators are increasing their net short positions. The weekly Commitment of Traders (COT) report showed that funds boosted their net-short sugar positions on New York market in the week ending 14 April 2020 to a 19-week high.
Moreover, the Brazilian currency continued to fall and reached a new historic record low against the dollar of BRL 5.7456/USD on 24 April 2020. Such a level has never been envisaged, even in the worst case scenario, the EU sugar beet sector considered a rate of BRL4.5/USD as a maximum. Within 3 months the Brazilian currency has depreciated by 25%. This persistent weakness in the Brazilian real against the dollar is a **major bearish factor for sugar prices.** A weaker real encourages export selling by Brazil's sugar producers.
Ample global sugar supplies are weighing on prices. Brazil's national crop agency, Conab, issued its final estimate for 2019/20 on 24 April 2020, stating that Brazil's 2019/20 sugar production rose by +2.6% year-on-year to 29.8 Mt. In addition, Brazil's sugar production is expected to increase significantly in the 2020/21 season (by around 7 to 10 Mt), as ethanol production based on sugar cane is significantly less attractive. The slump in crude oil is negative for ethanol prices and prompts Brazil's sugar mills to divert more cane crushing towards sugar rather than ethanol production, thus boosting sugar supplies. Indeed, ethanol prices in Brazil have also fallen (by around 20% in BRL and 35% in USD), following decreasing gasoline prices and decreasing demand.
In the EU, the price for biofuel ethanol decreased by 30%, from €64/hl before the COVID-19 crisis to €48/hl for the May contract.

EU Trade with third countries

The **fall in the 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.
In the face of this jeopardy, there is **an urgent need to monitor the EU spot price closely and to implement exceptional measures, of which imports safeguard measures as soon as this price falls below the reference threshold**. These safeguard measures could take the form of additional duties, calculated to prevent the EU sugar market price from falling below this 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 current conditions are also of concern for sugar beet growers: persistent dry conditions but also very early pests infestations (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.