ARTB
Association de Recherche Technique Betteravière

April 2021

Evolution of sugar prices in the European Union since the end of sugar quotas: what results?

The end of sugar beet quotas in Europe could have been seen by some of its promoters as an opportunity to adapt the volume of production to demand. However, the highly volatile world market presents:

- one-off opportunities in which the sector has its place;
- regular threats during which the sector could choose to restrict its supply in order to limit its exposure.

Without any available market management tools (excluding private storage), and apart from the buffer role offered by bioethanol, the "sugar price" factor could indeed be able to play this regulatory role. But, four years after the end of quotas, the delivery prices of sugar on the territory of the European Community are struggling to keep up with European fundamentals and, by extension, the sugar beet price. This situation limits the adaptation of supply to demand, and it is ultimately factors not chosen by the sector (drought in 2018 and 2019, virus yellows in 2020) which were the main elements dictating the level of Community production. This caused discouragement of upstream agriculture, which, during 2021 plantings, resulted in a reduction in planted area in some countries (France, UK and Belgium for instance), just as the world market was recovering.

1. For 4 years the European spot price has followed European fundamentals

With the end of European quotas (i.e. the end of the guarantee of a deficit supply in consumer sugar in the EU), the theory is that the selling price of sugar (measured here at “ex-French works”), on Community territory, follows the world price of refined sugar (futures market), between two values (Graph 1):

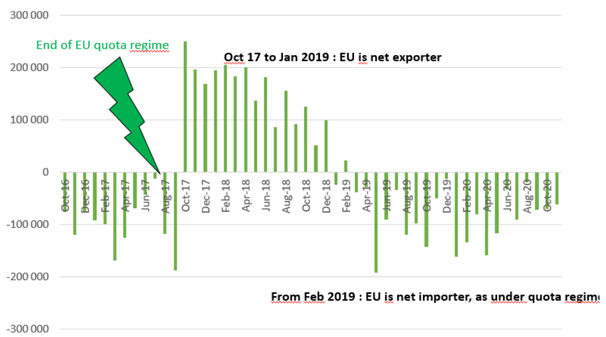
- In the event of surplus supply, to aim for export parity: prices on the European market fall until they reach the value of sugar sold on the world market. In this case, the selling price of sugar (ex-works) is the futures market price (FOB).
- In the event of a deficit in supply, to aim for import parity: prices on the European market increase until they reach the value of the price of imported sugar. In this case, the selling price of sugar (ex-works) is the futures market price (FOB) + 100 €/t.

ARTB
Association de Recherche Technique Betteravière

April 2021

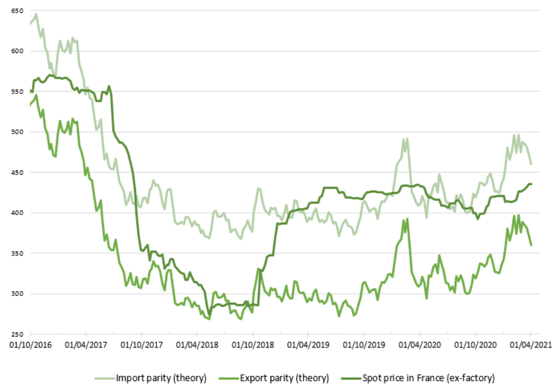
Sugar price in European Union since the end of the quota regime Théory (€/t, equivalent ex-factory on average, France)

Practice has confirmed this theory: the increase in area when quotas ended (2017) resulted in surplus supply in 2017/18 (+2 Mt at European level), but the droughts of 2018 and 2019, followed by the virus yellows episode in 2020, severely limited supply: the following campaigns showed a deficit (-0.2 Mt in 2018/19, -1 Mt in 2019/20 and -2 Mt in 2020/21). From January 2019, Europe became a net importer of sugar (Graph 2).



Sugar balance between European Union and non-EU countries per month Export - Import, in ton tel quel (from Eurostat)

Spot prices followed the trend: they went from export parity (from the end of quotas until the end of 2018) to import parity, since early 2019 (Graph 3).



Sugar price in European Union since the end of the quota regime. Theory vs spot (€/t, equivalent ex-factory on average, France)

Rising above 404 €/t[1] from January 2019, the sector should, logically, have emerged from the crisis as from that date. But this was not the case: in France, the main country with excess capacity in Europe, sugar beet area decreased again in 2019 (-8 %[2]), in 2020 (- 5 %) and in 2021 (- 6 %). Why?

[1] 404 €/t is the sugar “threshold reference”. This price is still in the Regulation (1308/2013), as an alert level, but does not imply the systematic implementation of concrete action by the sector or the European Commission (to date). It remains a good indicator of the level of European competitiveness.

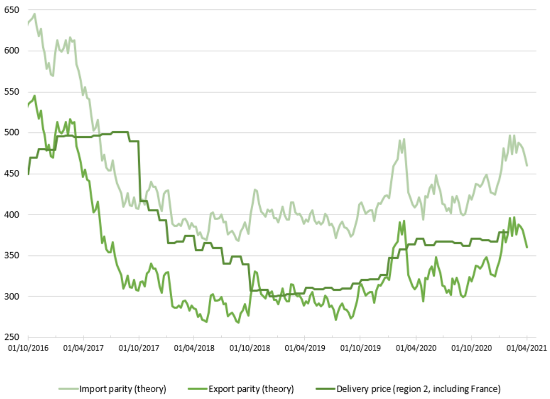
[2] -4 % if we do not take into account the “forced” reduction in area linked to the closure of the sugar beet basins of Limagnes and Calvados.

ARTB
Association de Recherche Technique Betteravière

April 2021

2. On the other hand, the delivery price of sugar in Europe does not follow European fundamentals

Because, unlike spot prices, the price of sugar delivered in the EU has only managed to recover very moderately and in January 2021 (i.e. 2 years after the European surplus situation), it has still not managed to rise above a remunerative level (Graph 4): so the sector has continued to contract.

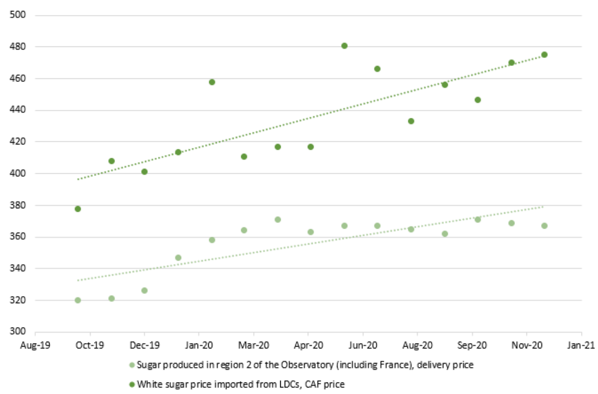


Sugar price in European Union since the end of the quota regime. Theory vs delivery price (€/t, region 2 of the Observatory Price, CE)

This situation can be explained by the way sugar is marketed in the European Union. The management framework, existing under the quota system, does not seem to have been changed : contractual commitment in summer N-1 at high rates, before even knowing the campaign fundamentals, with the aim of selling the volumes. Long-term contracts, visibly without indexation or a review clause, also seem to have been concluded in a context of fierce competition with the end of quotas.

So, if fundamentals are duly taken into account during the negotiation of contracts, this means that, at a fixed price, for a determined volume over a determined period of time, the evolution of these fundamentals is not passed on at the time of delivery, which is sometimes several months after negotiations.

Thus, it is the import sugar that has played the part of adapting supply and demand, and which has been able to benefit from the rise in spot prices (Graph 5). It should be noted that, if prices in the European sector had experienced the same increase as the imported sugar (+ 25% since 2019-20), they would be higher than the reference price. We can conclude that exporters probably seem to be more accustomed to spot sales, or are more innovative in their selling mechanisms.



Sugar prices : comparison between the imported white sugar price and the European produced sugar price from October 2019 (€/t)

3. Conclusion : a need for innovation in contractualisation within the sector

This situation shows that European fundamentals play their role, but ultimately act more on imports than on the European sector.

Consequently, the sector seems to undergo the changes in area rather than decide them and, above all, does not benefit from the increases (for instance, - 6% area in France in 2021 despite the world market recovery).

Several innovation schemes in contractualisation could make it possible to move towards better adaptation of supply to demand. Failing this, securing contractualisation, for example via long contractualisation (from farmer to user), could be considered.

3.1. Allowing reactivity of the European delivery price

First of all, it is important for the European sector to be more correlated with European fundamentals, so that it can adapt to them: so the price of European sugar follows European fundamentals.

This can only happen through the evolution of the management framework in contracts between sugar producers and users (negotiation with knowledge of campaign fundamentals), but also by indexing the contracts (e.g. on spot prices, soon to be made public by the European Commission) or, at a minimum, by including a "review clause" according to public indicators (spot price, futures markets, etc.). This implies the provision of solid public indicators (precise and rapidly accessible spot prices in sugar and ethanol).

With a community price responsive to fundamentals, the sector will be able to adapt supply to demand, particularly in terms of beet area once the beet price calculation conditions are clear and available before planting, based on known sugar/ethanol sales indicators.

3.2. Take advantage of opportunities in the event of a buoyant sugar futures market

In addition, sugar futures markets make it possible to cover part of the price risk for the processor.

They offer real advantages of use, whether for economic or structural reasons:

- Economically: during deficit cycles on the world market, promising futures markets can make it possible to offer an additional quantity of sugar beet, aimed at increasing the production of sugar for the export market.

- Structurally: by removing the link between the beet price and the sugar price, everyone (processor and grower) can financially secure his margin:
    - Thus, for the processor, it can limit the risk on his margin when a minimum beet price is announced, but also his interest in marketing sugar hastily.
    - It can also make it possible to propose a variety of solutions to growers (fixed price, minimum price, average price), according to each grower’s need (or not) for securing or not, according to his cost structures (e.g. non-amortized investment).

This pattern is particularly interesting when there is no correlation between European fundamentals and European delivery prices, as is currently the case, because it makes it possible to take into account the recovery of world markets not existing on European territory.

In addition, it can also be built to be of interest in the event of correlation of these markets, by ensuring a surplus situation at Community level when world prices are high and a deficit situation when this is not the case (and therefore maintaining an import parity price). This will require a review of the growers' delivery commitments, to make sure they correspond to a “minimum” volume ensuring a situation that is only just in deficit for the EU, but favour additional deliveries if the market permits.