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Sugar Beet sowing for MY 2023/24: opportunities and risks

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Civil Dialog Group Agricultural Markets - Sugar, 2 May 2023

Evolution of sugar beet area in 2023/24: a poor result

- Despite favorable fundamentals and good price perspectives, the response by growers and the sector in the EU is far from enthusiastic: very first estimate of EU beet area shows stability in 2023 - less than +1% - (decrease in FR & DE compensated by increase in PL and other countries, UK increase/return to "normal" level)
  - Sugar beet production costs are increasing
  - The EU regulatory framework on PPPs is fueling a phytosanitary crisis in some regions and increases risks for growers
  - EU sugar beet productivity is decreasing
  - The 2018-2022 market price crisis / non remunerative price has marked both growers and manufacturers (another factory is closing in 2023 in FR)
  - The market perspectives are poor (Brexit, Ukraine, RED…)
  - EU Green Deal raises concerns and necessitates already significant investments at field and factory level

Sowing 2023/24

- Difficult climatic conditions (rainfall, soil humidity) in spring 2023 in many regions → sowing season 2023 in these regions has been delayed by around 2 weeks → ⚠ But this does not automatically mean bad yield. <u>On 24 April</u>:
  - FR: 75% sown (weighted average) (91% on 26 April)
  - CZ: 70-75% sown
  - PL: 65% sown
  - BE: less than 30% sown
  - NL: around 50% sown
  - DE: regionally different, North 70-75% sown, Rhineland 35%, South 90%
- In other countries, sowing was almost finished:
  - SK: 100% sown
  - AT: 95% sown
  - RO: around 80% sown
  - SE: around 85% sown
- The season is only starting, and sugar beet is a resilient crop!

Source: CGB

Sugar Beet sowing for MY 2023/24

1. Opportunities: market fundamentals and prospects
2. Risks: costs of production, regulation on plant protection
3. The way forward: living on borrowed time, how to regain confidence?

1) Opportunities of MY 2023/24 and how to manage some challenges

Rally of sugar prices

- The rally of prices continues on world and EU markets:
  - White sugar London#5 traded on 26 April $703/t August 2023 term
  - Raw sugar NY#11 traded on 26 April 26.67 ct/lb May 2023 term
  - Average EU white sugar price reported at €804/t in February 2023 (record level)

- Boosted by:
  - "Tight and risky" global sugar markets – white sugar market is esp. tight
    - Set back of production in India, Thailand and China in 2022/23
    - Consumption
    - Climatic conditions
  - OPEC limitation in oil production and surge in oil prices (3 April)

- According to S&P Platts NY#11 prices likely to trade between 20-23 cents/lb until Q3 2023, amid tight trade flow scenario

- A 2023/24 recovery is expected, with a slight global surplus (Brazil, India, Thailand)
  - But 2023/24 trade flow would be extremely tight without India

Import parity price in the EU

- The high EU sugar market prices are a direct consequence of high global market prices - for both raw and white -
- EU sugar market prices are in line with world markets
- Moving white sugar from the world to the EU at zero duty is expensive due to freight, fobbing costs etc…

World Raw sugar price # 11 US cts/lb (July 23 term)	**26**
World Raw sugar price US$/t	573
Transport + fobbing + unloading $/t	60
Premium 4.2%	657
World price delivered €/t **($1.09/€)**	603
Cost refining 130 - 250 €/t	130 - 250
Sugar delivered zero duty €/t	**733 - 853**
CXL duty €/t	98
CXL Sugar delivered €/t	**831 - 951**

World White sugar price # 5 US cts/lb (Aug 23 term)	**709**
Transport + fobbing + delivery $/t (average)	130
Quality premium $/t (average)	50
Total delivered $/t	889
White Sugar delivered zero duty €/t	**816**

But sugar imports soaring and concerns about EU imports from Ukraine

October 2022-
September 2023

Totals include data up to applications for April

(tonnes tel quel)

QUOTA INFORMATION			MONTH: April 2023				TOTAL 2022 - 2023		
Quota number	Origin / Type	Quantity 2022 - 2023	Available	Applications introduced	Allocation coef.	Allocated	Allocated total[1]	Balance	Further applic. suspended as from
CXL			CXL				CXL		
09.4317	Australia	9,925.000	9,925.000					9,925.000	
09.4318	Brazil	308,518.000	166,132.606	35,000.000	100.000000%	35,000.000	177,385.394	131,132.606	
09.4319	Cuba	68,969.000	68,969.000					68,969.000	
09.4320	erga omnes	260,390.000	10.735	10.735	100.000000%	10.735	260,390.000		01/04/2023
09.4321	India	5,841.000	308.110	28.410	100.000000%	28.410	5,561.300	279.700	
09.4329	Brazil	54,028.000	0.005				54,027.995	0.005	01/02/2023
09.4330	Brazil	18,009.000	0.001				18,008.999	0.001	01/03/2023
BALKAN			BALKAN				BALKAN		
09.4324	Albania	1,000.000	1,000.000					1,000.000	
09.4325	Bosnia & Herzegovina	13,210.000	13,210.000					13,210.000	
09.4326	Serbia	181,000.000	155,573.750	2,236.500	100.000000%	2,236.500	27,662.750	153,337.250	
09.4327	North Macedonia	7,000.000	7,000.000					7,000.000	

EU imports from Ukraine

Source Commission: March, April 2023

- EU27 to remain net importer, with EU imports estimated to increase by 25% (possibly underestimated)
- **Surge of imports from Ukraine** since the opening of the EU market → 400 000 t expected for 2022/23 could be exceeded; F.O. Licht informed that Ukraine beet area would increase by 23% in 2023/24
- Worrying situation: **uncontrolled imports are disturbing the market,** CIBE supportive of Ukraine but requests:
  - **implementation of import-export licences to ensure of the origin of this sugar**
    - better monitoring and more efficient controls of the export licensing system by Ukrainian authorities
    - better monitoring of the origin of the sugar entering the EU market from Ukraine
  - **investigating the possibility of introducing a maximum imports volume to prevent huge import increases in coming months**

The challenge of input costs - gas and fertilisers -

	20 Avril 2023	Trend
Ammonium Nitrate 33	€ 345/t	~
Urea	€ 355/t	~
Super Phosphate Triple	**€ 635/t**	~
MOP	**€ 675/t**	~

- Significant decrease on the gas front
- Relief for sugar factories
- ➢ Allow better remuneration for sugar beet
- ➢ But **energy prices expected to remain high in coming year + 2024 uncertainties**

- Decrease in fertilizers price, mainly for nitrogen fertilizers but fertilizers prices remain high (post-covid 2021 level), esp. MOP & Phosphate
- Energy price for farmers remain high

- ➢ **Expected further increase in beet production costs in 2023/24**

Adequate policy on fertilizers needed

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- Growers implemented an optimisation strategy for the use of fertilizers

- Council adopted on 12 December 2022 the COUNCIL REGULATION (EU) 2022/2465 amending Annex I to Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff
  Customs duty are autonomously suspended for a period of 6 months starting from 16 December 2022 until 17 June 2023, except for Russia and Belarus, for the import into the EU of:
  - Ammonia (duty of 5.5% suspended)
  - Urea and ammonium (duty of 6.5% suspended)

- However, this measure had not been adopted in a timely manner, but after the purchase season for fertilisers

- **CIBE supports COPA-COGECA request for a 1-year extension of this measure and its extension to all mineral fertilisers. This demand was also pushed by the EP in the motion for a resolution adopted on 16 February 2023.**

Beet prices for 2023/24 season in line with sugar market prices

- Several public announcement by sugar companies ahead of the beet sowing season concerning sugar beet prices for 2023/24 to secure beet acreage in the light of increased beet cultivation costs of production

- NFU sugar beet pricing
  - UK Futures-linked sugar beet contract (operated by Czarnikow): on 27 April, the futures-linked beet pricing got to over £62/t beet

Source: NFU sugar

Increasing production costs – France (Source: ARTB, 2022)

Announced & expected increase in beet prices should allow to cover increase in production costs … **if "reasonable" yield**…

France sugar beet	2020	2021	2022	2023 est.
Variable costs per hectare	€ 968	€ 1 019	€1 253 (+29.5%)	€ 1 594 (+65%)
Fixed costs per hectare	€1 297	€ 1 327	€1 388	€ 1 457
Total	€ 2 265	€ 2 346	€2 641	€ 3 051
% 2020			+17%	**+ 35%**

Source: ARTB, CGB

Calculated Beet Price at 16° to cover costs	2020	2021	2022	2023 est.
Beet yield 85t/ha	27 €/t	28 €/t	31 €/t	36 €/t
Beet yield 75t/ha	32 €/t	34 €/t	38 €/t	44 €/t

Source: ARTB, CGB

- Beet production costs have increased by +35% compared to 2020
- Industrial/processing costs have also increased due to the price of gas in 2022/23
- **Sugar beet margin highly dependent on yield**
- In case of significant decrease of yield / losses > 20% → **margin will be negative!**

2) Risks and uncertainties

MY 2023/24 onwards

A big risk: the plant protection issue – ECJ ruling of 19 January 2023

- 2022: 13 countries with E.A for NNI treated sugar beet seed (12 EU MS + UK)
- Strict conditions were attached to these derogations and CIBE estimates that less than half of EU+UK beet area was sown with NNI-treated seed in 2022/23
- ECJ ruling of 19 January 2023 → chaotic situation!
- **2023: 6 MSs (+UK) with E.A. for NNI treated sugar beet seed being implemented**, some uncertainties on availabilities of treated seed

- **Still no sustainable alternatives to NNI to fight against aphids/virus yellows and weevils in 2023**
  - Only 4 a.s. available, less efficient & used in foliar applications
  - No effective biological control products available according to various trials
  - Other various practices (ex. companion plants) tested did not lead to sustainable results

A shrinking toolbox: medium term impact on the beet area

- Impacts of ban of EA for NNI-treated seed on sowing 2023/24: significant in some countries prone to insect' infestations
  + consequences of new CAP and new National Strategic Plans (NSPs), GAEC + eco-schemes
  + end/renewal of beet long-term contracts agreed at the end of the quota regime (5-year coop engagement)
  + possible negative impacts on yields in 2023/24 (the increase in beet prices would not cover a 20% loss of beet crop)
- Further **decrease of available crop protection tools (30 active substances lost to the sector since 2018 and more coming up for renewal by 31 December 2025)**
  - **at least 1 key herbicide a.s. in danger** (expiry of approval 31/7/2023)
  - **practically no new PPPs or suitable (i.e. effective) alternatives coming on-stream**
  - possible virus yellows "tolerant" varieties based on existing "pool" varieties as from 2024 but with lower productivity; possible new varieties not before 2026?
- **Competitiveness and attractiveness of sugar beet has decreased. Worse, sugar beet is becoming a risky crop in some regions**

A shrinking toolbox: long term impacts on beet area

- **Plant protection is a key issue for European sugar beet growers to first combat weeds and second pests & diseases and they did not wait for the Commission to practice & implement IPM!**
  - Extract of DG Agri report on IPM: "For some crops such as fruit, tomato, **sugar beet**, pepper, cereals, and oilseed the degree of cooperation and sharing of information is higher compared to other sectors. In these sectors, the **strategies for the reduction of pesticides and the application of IPM practices for these crops is consolidated and already in place**."
- **Significant investment in R&D and time necessary to manage the shrinking toolbox (new "conventional" varieties, new practices, new a.s.)**
- In this context, the Commission's legislative proposal for a SUR is, for European sugar beet growers:
  - Unfeasible and unrealistic – trade-offs attached → ↓productivity, further weakening of the sector
  - Fueling extreme positions and ideology
  - Putting the cart before the horse:
    - Commission omits to push for effective alternatives
    - Commission is even considering a further delay of the expected new NBT framework (contrary to the UK) → raises concerns
    - Response by the Commission on "mirror clauses" is so far zero as far as sugar is concerned → more imports with low environmental, climate and social standards
- **CIBE cannot but oppose and request in-depth amendments**

3) The way forward

3- The way forward: living on borrowed time, how to regain confidence?

- No progress in safety-net provisions: 1 MS is looking at safety-net/compensation mechanism to compensate growers whose crop would be severely affected by virus yellows in 2023 (based on Art. 221 of CMO Regulation)
- After years of red figures, the sector need high sugar prices and black figures for several years to at least maintain activity and continue investments, notably in R&D (strong mobilization of the entire chain but without EU funding)
- Poor market-perspectives (Brexit & loss of UK market – 300 000 t), decrease in EU sugar consumption, new RED means poor ethanol market perspectives
- EU policy is incomprehensible for beet growers
- The situation is fragile (sugar beet ≠ other arable crop sectors → integrated to factories/high capital)

3- The way forward: living on borrowed time, how to regain confidence?

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1. Safety-net provisions and support to **risk management tools** need to be financially supported
2. **Envi & PPPs legislations need balance & safeguards: regulatory stability/predictability** on plant protection is needed; agronomic practices in sugar beet growing are constantly evolving towards better sustainability but **restrictions and bans without solutions is bad policy**
3. Proposal for a **SUR as it stands is detrimental**: targets, deadline, baseline, IPM provisions etc. must be amended to fit with realities/sustainability objectives!
4. **Appropriate regulatory framework for innovation, <u>including for NBTs</u>, is urgent and crucial!** Dedicated financing of research projects is necessary (Horizon Europe too far from the urgent needs)
5. Significant **support for R&D and investments** in precision agriculture is necessary
6. **Stop market concessions to new trade partners** (AU, India) **and introduce effective mirror measures** with all current trade partners (see CIBE work on several cases of violations of human, social, labor and environmental rights). CIBE highlights:
   - Non-inclusion of cane sugar in the “deforestation-free” Regulation is negative
   - Regulation on MRLs for 2 banned a.s. (CLO, TMX) is non-effective for imported cane sugar
   - Proposal for a Regulation on due diligence for forced labor is too weak and discussions are slow
   - EU bilateral FTAs: no mindset change by the Commission: current & future sugar market concessions with no results so far in terms of reciprocity, notably for the use of EU banned PPPs by trade partners (incl. for Mercosur)

Thank you for your attention!

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