Date: 18th October 2021

GUIDANCE NOTES FOR FARMERS REGARDING FUTURES LINKED SUGAR BEET CONTRACTS

This note provides details about a new arrangement for UK sugar beet growers ("Growers") which gives Growers an option to choose a more flexible pricing mechanism for the beet they produce. We have set out below a summary of the existing pricing structure for the sale of sugar beet and a summary of how the alternative pricing structure will work.

Current position

Under the existing arrangements, the position is as follows:

- All Growers agree to sell a specific tonnage of beet to British Sugar each year, or over a period of three years for those with a multi-year contract, for sugar processing purposes.
- The amount of money Growers receive for their beet is based on a headline price per tonne (plus the potential for bonuses) which is agreed between the NFU and British Sugar before Contract Packs are sent to Growers each year, and the total income for each Grower depends on their agreed tonnage.
- The majority of the terms and conditions of your contract are captured in a document known as the Inter Professional Agreement ("IPA") which is entered into by the NFU (representing all Growers) and British Sugar. For individual Growers, details relating to the price for sugar beet and delivery dates are set out in the documents in the Contract Pack which are completed and returned to British Sugar on an annual basis.

New pricing option

Going forward, Growers who indicate an interest in the futures linked contract pilot have an additional pricing option available to them which is:

- Growers may choose to apply a variable pricing structure to some (but not all) of the tonnage they have agreed to supply to British Sugar in their annual Contract Pack.
- At least 90% of the agreed tonnage must remain in the current pricing arrangement (i.e. the fixed base pricing mechanism) with British Sugar.
- Growers are still committed to delivering the total agreed tonnage to British Sugar in the timescales set out in the Contract Pack.
- If Growers choose to adopt the variable pricing structure, this is a binding agreement for that tonnage which cannot be changed so it is not possible to revert to the fixed base price arrangement offered by British Sugar once a Grower has decided to apply the variable pricing structure to the sale of a portion of their beet for a particular year.
- At the moment this option is only available through one particular company (see further details below), so if you wish to adopt the variable pricing structure you are only able to hedge your beet price via that particular company.

Further details

- Title to (ownership of) up to 10% of the agreed tonnage can be temporarily transferred to a company called Czarnikow Group Limited ("CGL"). This is done through a written agreement rather than any physical transfer of beet and this happens before the agreed delivery date specified in the Contract Pack.
- CGL have access to world commodity futures markets which allows them to offer a more flexible pricing structure to Growers for beet. This more flexible approach is already in use for most crops including wheat and barley and it is now available for sugar beet too.
- Growers agree with British Sugar the tonnage they wish to apply the flexible pricing structure to ("Applicable Tonnage") and the date the arrangement will begin. At any point in the period from that start date up to 1 September 2022, the Grower can notify CGL via their pricing application, Czapp, that they wish to fix the price for all or part of the Applicable Tonnage. The price that a Grower gets on any particular date for all or part of the Applicable Tonnage will depend on the markets at that time and could be more or less than the fixed base price.
- Czapp will display the beet price available generated by a formula agreed by NFU Sugar and British Sugar. This formula is equal to the December 2022 White Sugar Futures traded on the Intercontinental

Exchange, converted to GBP using the 1st December 2022 forward GBP/USD exchange rate, minus £175, Divided by 6.25, Minus £0.34 per beet tonne.
- Czapp will allow Growers to view and fix prices on a daily basis, as well as provide access to CGL's market information and analysis. CGL will not provide any advice or guidance to individual Growers in relation to pricing decisions.
- The price you receive for the Applicable Tonnage upon delivery will be equal to the weighted average price you have fixed over the pricing period.

Example:
If your Contract Pack confirms you will deliver 1000 tonnes of beet to British Sugar, you may choose to contract a proportion (e.g. 10%) onto a futures linked contract with British Sugar to benefit from a more flexible pricing structure, meaning that the price for your beet will fluctuate based on the market position. You will then transfer that tonnage to CGL who will use the global sugar futures market to hedge pricing. You can keep an eye on the price of the beet through Czapp and when you feel the price is right, you notify CGL via Czapp that you wish to fix the price at that point in time for all or part of those 100 tonnes. The notification date(s) must fall between the date you engage CGL and 1 September 2022. If you do not fix a price via Czapp by 1 September 2022 for some or all of those tonnes, you will receive a price derived by the agreed formula based on the December 2022 ICE White Sugar futures price executed by CGL on 1st September 2022.

You will have the flexibility to decide how exposed to the market you wish to remain, so you may choose to fix the price once (i.e. for all 100 tonnes in one go) or at numerous times over the relevant period (e.g. 2 x 50 tonnes at 2 different times). The price for the beet will vary every day, and it is up to you to decide the pricing strategy you wish to adopt.

Risks and rewards

Risks

- Remember that you have made a commitment to British Sugar to deliver the agreed tonnage and you are responsible for meeting this requirement in full regardless of the price(s) that you receive for the beet. Please consider the risk of under-delivery, if (for example) your crop fails to grow or cannot be sold due to contamination or disease. In such circumstances, CGL may seek a lump sum payment from you if you have committed a certain tonnage to their flexible pricing structure which you can no longer honour. British Sugar may also impose a financial penalty if the agreed tonnage set out in the Contract Pack is not delivered.
- The index-linked contract price means that the price of the beet will change over time until you make use of the hedging arrangements offered by CGL to fix a particular price. Markets change constantly due to various factors, and the price will go up and down over the course of the time that you engage CGL. This means that there is no guarantee that the flexible pricing option will result in you generating more income from this option instead of continuing with the current fixed price approach offered by British Sugar.
- You may want to consider taking out suitable insurance cover to protect against crop failure and contamination. Please contact your insurance provider to explore what options might be available to you.
- There is a "counterparty risk" that CGL may face financial difficulties of their own (e.g. insolvency) which could result in them not being able to honour their pricing arrangement with you. In such circumstances you would need to contact British Sugar to discuss what options are available. Please note CreditSafe lists Czarnikow at very low risk.

Rewards

- Engaging CGL so that you can take advantage of the hedging structures could result in higher income for the proportion of the beet which you decide to apply these flexible pricing option to.
- Decisions about how and when to price are in your hands, so you can apply your own judgement when you feel it is appropriate to accept the market price. This means you can adopt a pricing strategy to meet the needs of your own business, whether that is to aim for cost coverage or whether it is to seek a higher degree of risk.
- You are not exposed to the selling performance or hedging decisions of British Sugar's sugar sales.

Next steps

If this is something you wish to explore further, please look out for the additional information which forms part of your Contract Pack. NFU Sugar, alongside British Sugar and CGL, ran information sessions for interested growers on 19th and 21st October. Please contact NFU Sugar for details and/or a recording. If you choose this contract option, alongside the Notice of Acceptance will be a document called a Novation Agreement for you to read and digitally sign to confirm you wish to engage CGL. This is the document which gives effect to the transfer of ownership in the beet to CGL and it is required so that CGL can access the global futures market and hedge pricing. This document forms a legally binding agreement between each individual Grower and CGL in relation to the variable pricing structure.

Please note that whether or not you choose to adopt the flexible pricing structure in respect of your beet is completely at your discretion. This briefing note has been prepared by the NFU but it does not give any endorsement or recommendation regarding the options contained within it.