ACP/LDC Sugar Industries Group

Representing the ACP and LDC sugar industries supplying the EU

INQUIRY INTO "TRADE IN SUGAR POST-BREXIT"- WRITTEN EVIDENCE SUBMITTED BY THE ACP/LDC SUGAR INDUSTRIES GROUP

The ACP/LDC Sugar Industries Group ("ACP Sugar") is a group open to all sugar industries in countries that are eligible to supply sugar to the EU quota free and tariff free and who are listed in Annex 1 to EU Regulation 2015/1550 and additionally South Africa. We represent 20 sugar industries (listed in the footer below) who collectively supply substantially all of the sugar exported to the EU by ACP/LDC countries. This document represents the views of ACP Sugar.

EXECUTIVE SUMMARY

- The production of sugar has a unique place in the economies of developing countries represented by ACP Sugar, contributing to development in rural areas and in many cases being the primary engine for poverty alleviation and sustained rural economic development.

- Access to a preferential sugar market in the EU and, more importantly, in the UK remains important for many of ACP Sugar's suppliers and communities.

- The reforms of the EU sugar regime have destroyed both the value and the demand for ACP/LDC sugar

- Virtually all of the world's largest exporters of sugar, including the EU, subsidise their sugar industries.

- Brexit is an opportunity for the UK government to implement measures that allow:
    - Duty-free preferential access from ACP/LDC countries
    - The retention of a tariff on "non-preferential" countries
    - The management of the market to allow for the UK beet sector, cane refiners and developing countries to operate on an even playing field providing diversity in the UK supply base and facilitating an efficient and competitive market, consumer choice and food security.

- Given the complexities and distortions in world sugar markets, a regime based purely on tariffs is unlikely to lead to a sustainable cane sector in the UK and preferential returns for ACP/LDC industries.

RESPONSES TO THE SPECIFIC QUESTIONS RAISED

Question 1. What challenges and opportunities will the UK sugar industry face from new trade arrangements with EU countries post-Brexit?

1.1 The UK has become overwhelmed by surplus EU 27 sugar. This has been at the expense of ACP/LDC supplies and the utilisation of refining capacity at Tate and Lyle. With the EU 28 now exporting as much as 4 million tonnes per annum onto the world market, and with the EU27 exporting 500 to 600,000 tons to the UK, when the UK leaves the EU, the UK will remain a dumping ground for EU exporters. With very short transit times, low transport costs and established counterparties, the UK market will increasingly be targeted aggressively in preference to alternative export markets.

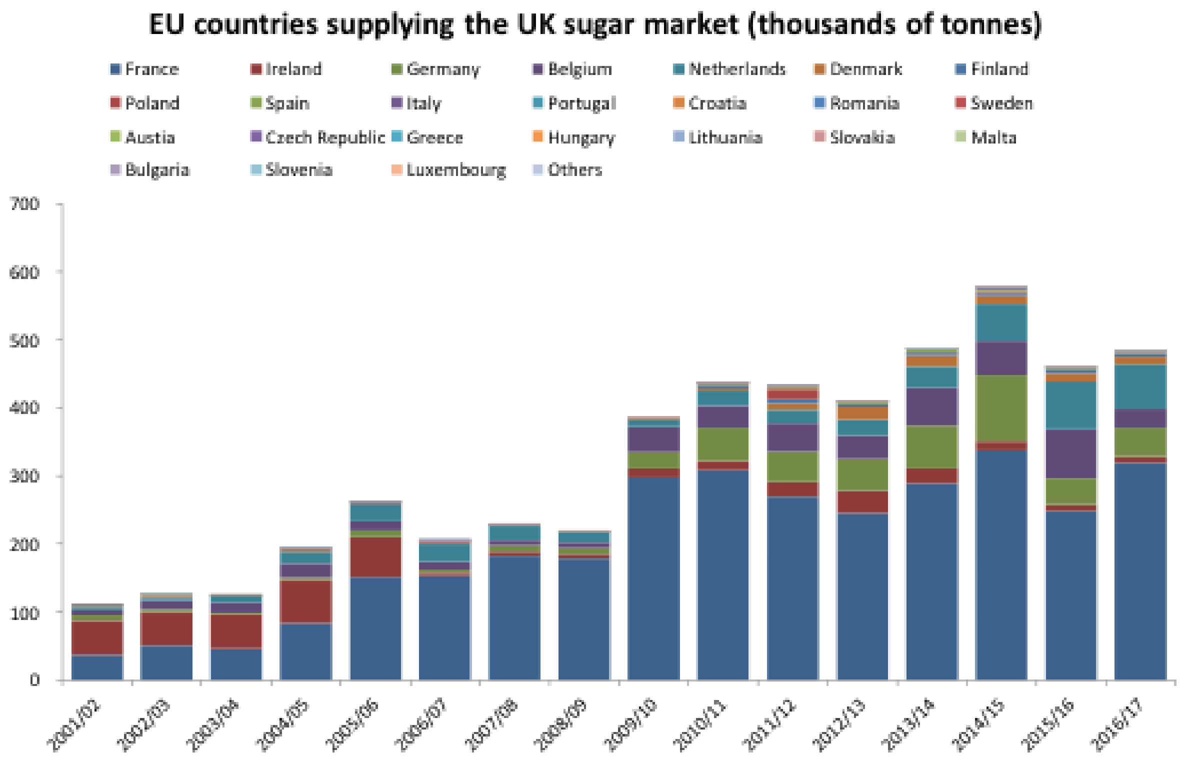


Figure 1

Source: Eurostat

1.2 EU27 exports will continue to be unfairly supported, notably by the Voluntary Coupled Support (VCS) subsidy. The EU enacted regulation number 1307/2013 allowing for national governments to make coupled payments to farmers where it was "necessary to create an incentive to maintain current levels of production[1] or address sectors in difficulties". The EU Council of Ministers approved the reform of its sugar regime and advised developing country exporters that they needed to adapt to a market-based policy. Thereafter the EU Council and Parliament approved VCS payments to subsidise and support its own farmers. It is estimated that VCS supports production of 3.6 million tonnes of sugar production that, by definition, would have otherwise been unsustainable. Thus, developing countries have not only been displaced from their traditional market in the EU but also now have to compete against EU exports in the world, their regional and even their domestic markets.

[1] https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/voluntary-coupled-support-note-2_en.pdf

1.3 The recent white paper – “Preparing for our future UK Trade Policy” stated that there was an understanding that some “reasonable trade protection intervention can be warranted to address genuinely unfair practices”. VCS in the sugar sector is a genuinely unfair practice. It is unfair to developing countries, UK beet farmers and UK processors of beet and cane.

1.4 Therefore, any trade agreement with EU 27 must prevent unrestricted access of sugar (and alternative sweeteners such as isoglucose) thus protecting UK beet growers and processors, the UK refining sector and developing country suppliers.

Question 2. How should the deficit in sugar that will accompany the departure from the EU be filled?

2.1 There is a real opportunity for the UK to implement measures to allow this deficit to be filled by developing countries, thus allowing the UK to implement a sugar policy which balances the needs of domestic growers and processors, refiners, and consumers and to support preferential trade with developing country suppliers.

2.2 These measures would include (but would not necessarily be limited to);

2.2.1 Continued tariff-free preferential access for developing countries,
2.2.2 The maintenance of a tariff on non-preferential sugar, including sugar from EU 27 at the current EU bound level,
2.2.3 A degree of market intervention to balance total supplies to match the UK’s deficit.

2.3 If the UK simply removed tariffs on sugar; the UK would be likely to be supplied by UK beet and subsidised imported EU27 refined sugar. The UK beet sector would have to compete with EU sugar, supported by VCS and world market sugar supported by an array of production, fiscal and trade measures. The UK refining sector (and the ACP suppliers of bulk raw sugar) would find it difficult to compete with the surpluses created in the EU. If the UK granted tariff free access under FTAs to producers such as Brazil, there would be little or no preference and thus no supply from developing countries.

2.4 The diversity of the UK supply base is predicated on viable preferential imports and the ongoing competitiveness of both a UK beet and a UK refining sector. This diversity of supply facilitates an efficient and competitive market, provides consumer choice and supports broader food security considerations.

Question 3. How can future policy best address trends in the sugar industry such as a falling world price and decreased consumption?

3.1 Per capita consumption in the UK has been falling since the 1950s. However, rising populations have compensated to a large extent. Any sugar policy should balance supply and demand within the market.

3.2 For the UK to achieve the diversity in supply envisaged in 2.4 above, it will need to implement a policy and various measures that can adapt to changes in supply patterns and thus provide a stable environment in which all stakeholders can compete on an even playing field. This implies a degree of market intervention in addition to import tariffs.

Question 4. What trade policies and agreements could achieve a balance between protecting domestic and infant industry, competitiveness and free trade and supporting the sugar industry in LDC and ACP countries?

4.1 Noting that the world market is not (and is unlikely to be in the foreseeable future) an even playing field, ACP Sugar are calling for, in addition to the measures highlighted in answers to question 2 above;

a. The maintenance of duty free access for ACP/LDC origins into the UK.
b. The maintenance of a tariff on non-ACP/LDC sugar at the current EU rate.
c. Ensuring that Sugar is treated as a “sensitive product” in any FTA negotiations with other countries, including the EU27, and therefore access to sugar is excluded (except to the extent of any WTO access quota obligations that the UK assumes)

Question 5. What are the opportunities for export for the UK sugar beet industry post-Brexit?

5.1 This question is more relevant to UK processors of beet and cane than ACP Sugar. However, given that the UK is a deficit market, exports of sugar from the UK are relatively small and should not be a primary concern.

APPENDIX – BACKGROUND INFORMATION

The role that sugar industries play in the economies of Developing Countries

1.1. Sugar cane is a proven crop that is unique in its ability to withstand the extremes of weather that exist in tropical regions
1.2. The expansion of the cane sugar industry in developing countries goes hand in hand with the establishment of small grower schemes and projects.
1.3. Sugar production is an agro-industrial process that often supports the development of a range of diverse skills that transfer to other parts of the economy
1.4. Sugar production contributes to large scale employment in rural areas
1.5. The multiplier effect on employment and the economy is significant
1.6. Sugar Industries provide much needed export earnings and tax revenues
1.7. Sugar industries often provide healthcare, education, housing and infrastructure for their employees and the wider community
1.8. Cane sugar production generates renewable energy and thus contributes significantly to national energy security and to the mitigation of climate change

A short history of supply of sugar between ACP/LDC countries and the UK

2. The history of sugar and trade with the UK are closely linked and have evolved over centuries so much so that, when the UK surrendered its trade policy to the EEC in 1974, it negotiated, as part of the Accession Treaty, a Sugar Protocol protecting the market for a list of ACP countries. This Protocol replaced the Commonwealth Sugar Agreement and both agreements sought to provide a market with prices that were "reasonably remunerative for an efficient producer".

3. These two agreements were for decades the most important trade instruments that underpinned the development of sugar production in ACP/LDC countries and provided the engine for economies to diversify and expand.

4. The EU has continued to successively reform its Sugar Regime and eventually renounced the Sugar Protocol with effect from 2009 and granted duty-free and quota free access to a wider group of countries. Since 2009, the EU has granted additional access under new Free Trade Agreements and, in October 2017 completed its reform by removing domestic quotas and thus any restrictions on the amount of domestically produced sugar that can be sold within the EU.

5. The consequence for ACP/LDC sugar suppliers has been that, since October 2017, demand for their sugar has been running at a rate equivalent to 50% of 2016/17 demand and less than 25% of the levels achieved in 2013/14. This has had serious implications for ACP/LDC suppliers and the refiners that buy our sugar, including Tate and Lyle in the UK.

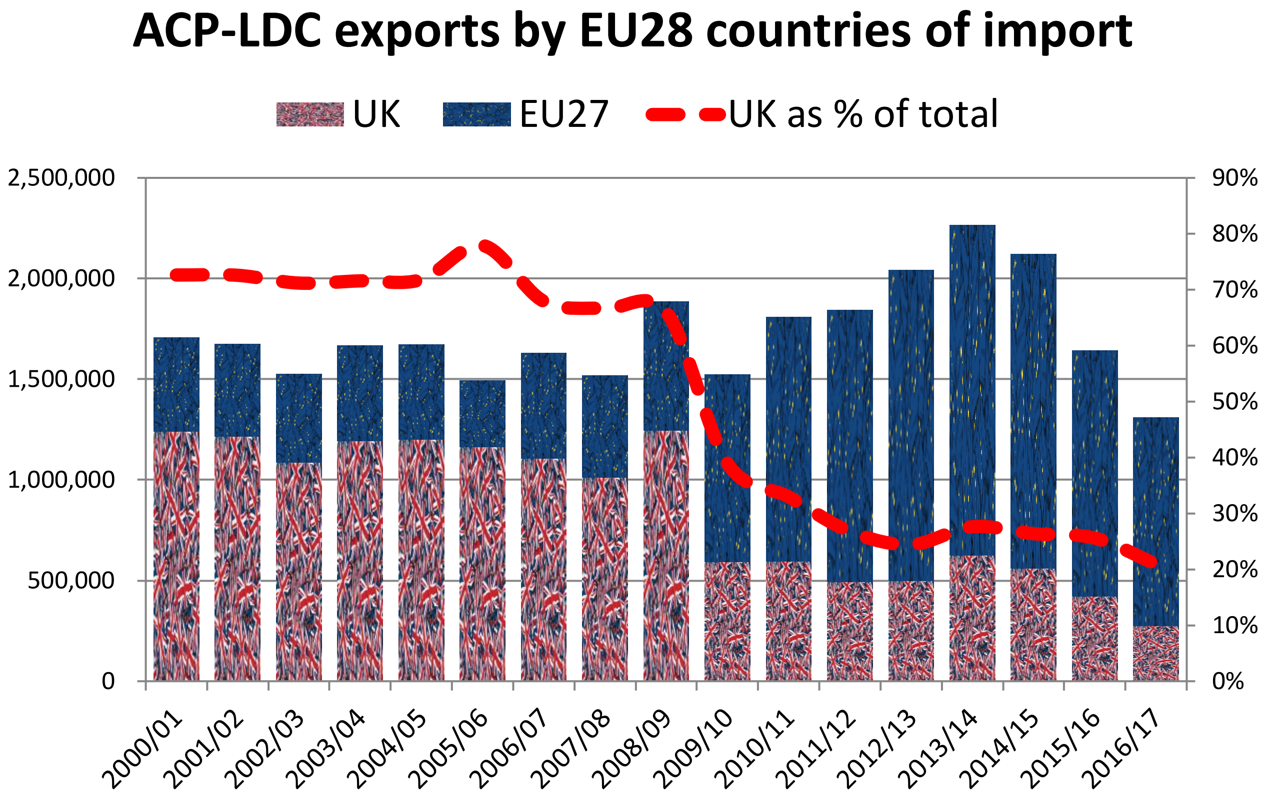
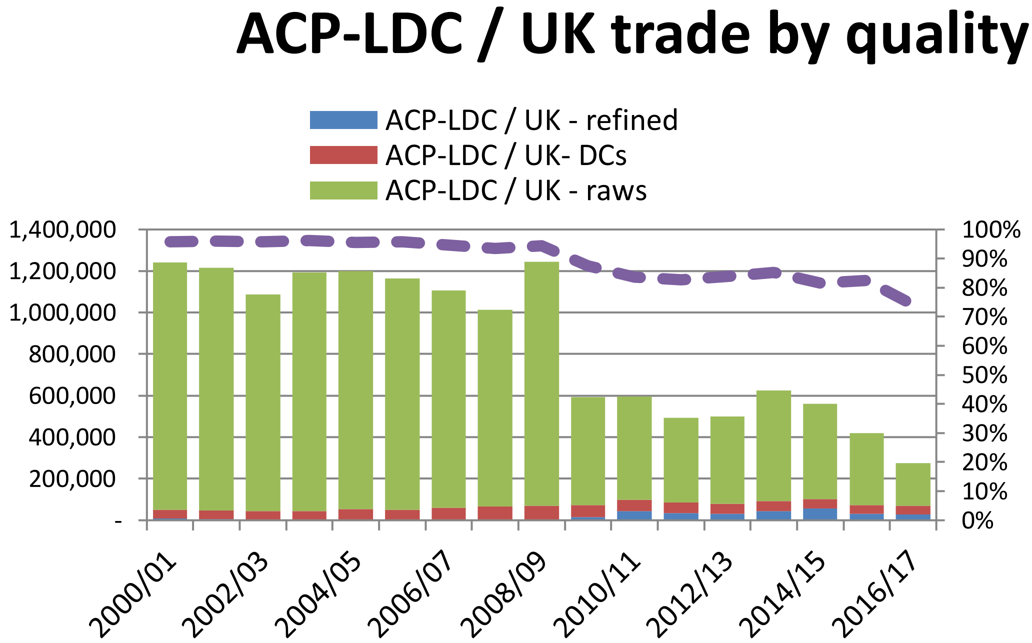


Figure 1

Source: Eurostat

6. Prices in the EU market have fallen sharply as a consequence of the increase in EU production over the past year, an increase of approximately 4 million metric tons. Indeed, increased EU sugar exports have also contributed to the decline in the world market price.

7. The impact on shipments to the UK has been even more dramatic as can be seen in Figure 2 below and, whilst the market for Direct Consumption speciality sugars (DCs) has remained static and refined sugar increased slightly, bulk raw sugar for refining, the main supply, has fallen significantly.



Source: Eurostat

Figure 2

THE IMPORTANCE OF THE EU AND UK MARKETS TO ACP SUGAR INDUSTRIES

8. A report was prepared by Cardo and LMC for the European Commission in July 2016 entitled "Study on Current and Forecast Market Developments for ACP Sugar Suppliers to the EU Market" ("Cardno")([2]).

9. Figure 3 below from Cardno shows the percentage of production delivered to various markets and thus the importance of exports to the EU from ACP/LDC countries.

Current distribution of sugar sales by market, average 2011-2014

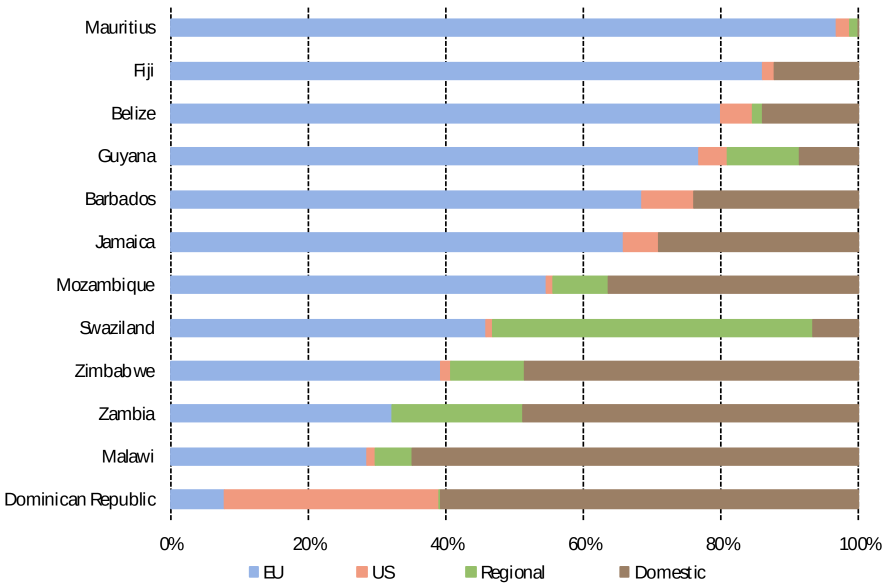


Figure 3

Source: Cardno

The World Market for sugar

10. Sugar is manufactured in virtually every country in the world. As such, free trade in sugar is not always "fair trade". There are a number of support measures and structures available to the largest exporters such as Brazil, Thailand, India and the EU. It is extremely difficult for small developing economies with constrained fiscal capacity to compete without preferential access arrangements and a degree of protection from the world market.

11. A quarter of worldwide sugar sales are made on the international market. Despite this, world market prices do not reflect the true economics of producing sugar. They are distorted by government support.

12. Indeed, all major sugar-producing countries strongly subsidise their sugar industries:

---

[2] https://www.acpsugarbrexit.com/s/Cardno-Report-Study-on-the-current-and-forecast-effects-of-the-EU-sugar-regime-reform-and-trade-poli.pdf

13. Brazilian support to its sugar cane industry amounts to some US$2.5 billion per annum, at a minimum[3]. It is worth noting that Brazilian exports amount to close to half of all internationally traded sugar. Brazil produces some 34 million tonnes of sugar.

14. In the world's second largest sugar exporter, Thailand, the industry receives at least US$ 1.3 billion in annual subsidies[4]. Thailand's sugar output is about 11 million tonnes.

15. With some 23 million tonnes, India is the world's second largest producer of sugar, and a minimum of US$1.7 billion in subsidies support the industry[5].

16. In the European Union, even after the end of the quota system, sugar industry subsidies will amount to some US$ 665 million dollars per annum[6] for a production which will exceed 20.5 million tons in 2017/18.

17. For 2014, the United States of America notified US$ 1.5 billion of sugar subsidies in highly trade-distorting "amber-box" to the WTO. Domestic US production amounts to 7 to 8 million tonnes per annum[7].

18. Thus, on average, a ton of sugar produced by these major players is subsidised to the tune of US$ 82 per tonne. (Currently, the world market price is around 360 US$/t for refined sugar and 300 US$/t for raw sugar.)

19. Other nations also support their sugar industries through a variety of fiscal and other tools.

20. ACP/LDC governments simply do not have the resources to balance these levels of support.

[3] Government Support and the Brazilian Sugar Industry", by Patrick H. Chatenay, ProSunergy Ltd, August 2013

[4] Thailand's Sugar Policy: Government Drives Production and Export Expansion", by Antoine Meriot, Sugar Expertise LLC, June 2015.

[5] Indian sugar policy: Government role in production expansion, and transition from importer to exporter", by Antoine Meriot, Sugar Expertise LLC, August 2016

[6] European Union Sugar Industry Support", by Patrick H. Chatenay, ProSunergy Ltd, August 2015

[7] WTO data at https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=233987,233988,233989,233963,233962,233906,233917,233918,233904,233854&CurrentCatalogueIdIndex=6&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=False&HasSpanishRecord=False