Briefing note on the implications for ACP/LDC sugar industries of the U.K.'s decision to leave the European Community

Executive summary

Importance of the UK Market

- There is a long history of sugar supply from ACP/LDC countries to the UK
- The UK is a deficit market of around 0.8 million metric tons
- In the reformed EU regime and after 1st October 2017, it is estimated that imports into the European Union from third countries will fall by around 50% to around 1.6 million tonnes.
- The UK therefore represents approximately 50% of this forecasted EU28 market for ACP/LDC sugar.

Importance of sugar to our Economies

A report written in 2016, commissioned jointly by the EU Commission and the ACP Group and prepared by LMC on behalf of Cardno ([1]), has highlighted the importance of sugar in ACP countries, including the following:

- Sugar has a huge socio-economic impact in many ACP/LDC countries contributing to GDP and to employment in rural areas.
- ACP/LDC Sugar industries rely on the EU market. For some some industries, more than 90% of sugar production is committed to the EU.
- In addition to its traditional raw sugar supply to European based refineries, many ACP sugar industries have invested, diversified into and developed a market for direct consumption refined and unrefined sugar in the UK and elsewhere in Europe.

The World Market Price

- The world market price is recognised as a distorted and residual price, unrepresentative of the true cost of production in even low-cost producing areas.
- Major exporters such as Brazil and Thailand subsidise and support their industries extensively ([2]).
- Producers in 10 EU countries benefit from Voluntary Coupled Support payments to beet growers, which is also a significant subsidy maintaining as much as one million tonnes of otherwise unsustainable beet sugar production in the EU ([3]).
- The world market price represents the value of a subsidised, small and residual tonnage and should never be used as a benchmark for sustainable trade arrangements such as the supply of sugar to the UK

ACP/LDC industries requests in relation to Sugar and Brexit

That the UK implements policies and agrees Trade Agreements that support:

- *the continued access for ACP and LDC origin raw and refined sugars to the UK market on a duty-free basis;*
- *the retention of a tariff on MFN origin raw and refined sugar at the current EU levels (or their equivalent in sterling);*
- *the recognition of the vulnerability of sugar industries in ACP/LDC States to distorted global markets, and the socio-economic importance to their economies and thus that in any trade negotiations or agreements with third countries, sugar is clearly recognised as a "Sensitive Product" requiring "Special and Differential Treatment;*

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[1] Not yet published; copy available on request.
[2] See: https://sugaralliance.org/wp-content/uploads/2013/10/LMC-Foreign-Sugar-Producers-Subsidy-Table.pdf
[3] See: https://ec.europa.eu/agriculture/sites/agriculture/files/outlook-conference-2016-12-07-londero-2.pdf

- *that the ACP and LDC suppliers be consulted fully during the formulation and establishment of UK trade policies in relation to sugar; and*
- *the provision of support to meet the solutions set out under the recommendations of the Cardno/LMC report to build longer term resilience in ACP/LDC States.*

The implications for ACP/LDC sugar industries of the U.K.'s decision to leave the European Community

History of the Supply from ACP/LDC countries

The trade in sugar between ACP/LDC countries and The European Union on preferential terms has been carrying on for centuries and remains the bedrock of many of our industries today. When the United Kingdom acceded to the European Union in 1973, part of the negotiations involved the negotiation of a "Sugar Protocol", to replace the Commonwealth Sugar Agreement that was then in place. The ACP-EU Sugar Protocol provided for access for defined quantities of sugar from beneficiary countries duty-free, at a minimum guaranteed price for an indefinite duration ([4]).

In 2009, the ACP-EU Sugar Protocol was unilaterally denounced by the European Community and financial support in the form of Accompanying Measures for Sugar Protocol countries ("AMSP") ([5]) was promised to the countries/industries that were the beneficiaries in proportion to their Guaranteed Quantities under the Protocol. This programme of support has not yet been completed.

Since 2009, the EU has afforded (with certain safeguard measures) duty-free and quota-free access to ACP countries and to LDC countries, the latter under the EBA initiative. There is, however, no longer any guarantee of a minimum price associated with this access.

On 1 October 2017, a further reform of the sugar regime in Europe will come into effect. The principal component of this reform is that domestic production quotas will cease to exist. These quotas have, until now, limited the amount of sugar and isoglucose that can be sold domestically by EU producers thus permitting space for imports from the ACP and LDC countries.

Over recent years, the EU has entered into a number of Free Trade Agreements and other arrangements unforeseen in the original reform and which provide for reduced or duty-free access to the Community's sugar market thus increasing supply thereto.

Therefore, the EU market after 1st October 2017, will be subject to supplies of domestically produced sugar that are limited only by production capacity (subsidised under the Common Agricultural Policy), increased access under new FTAs and hence the ACP and LDC countries will consequently suffer from a greatly reduced import requirement. The EU market, even without imports, is expected to be in surplus but the current consensus (which is also reflected in the EU's own published forecasts) is that approximately 1.8 million metric tons of sugar will be imported, substantially less than the approximate 3 to 3.5 million metric tons imported today.

Since the end of the Sugar Protocol and the granting of full duty-free quota free access for ACP and LDC countries, the supply of sugar to the European Union from our group of countries has increased. Furthermore, this increase has tended to be in newer and lower cost industries, many of whom had only a limited access to preferential trade with Europe prior to this time. The granting of additional access has been a powerful stimulant to growth in the sugar industries of ACP/LDC countries by provided the degree of certainty and comfort required to raise the large sums of capital required for new expansion or rehabilitation projects.

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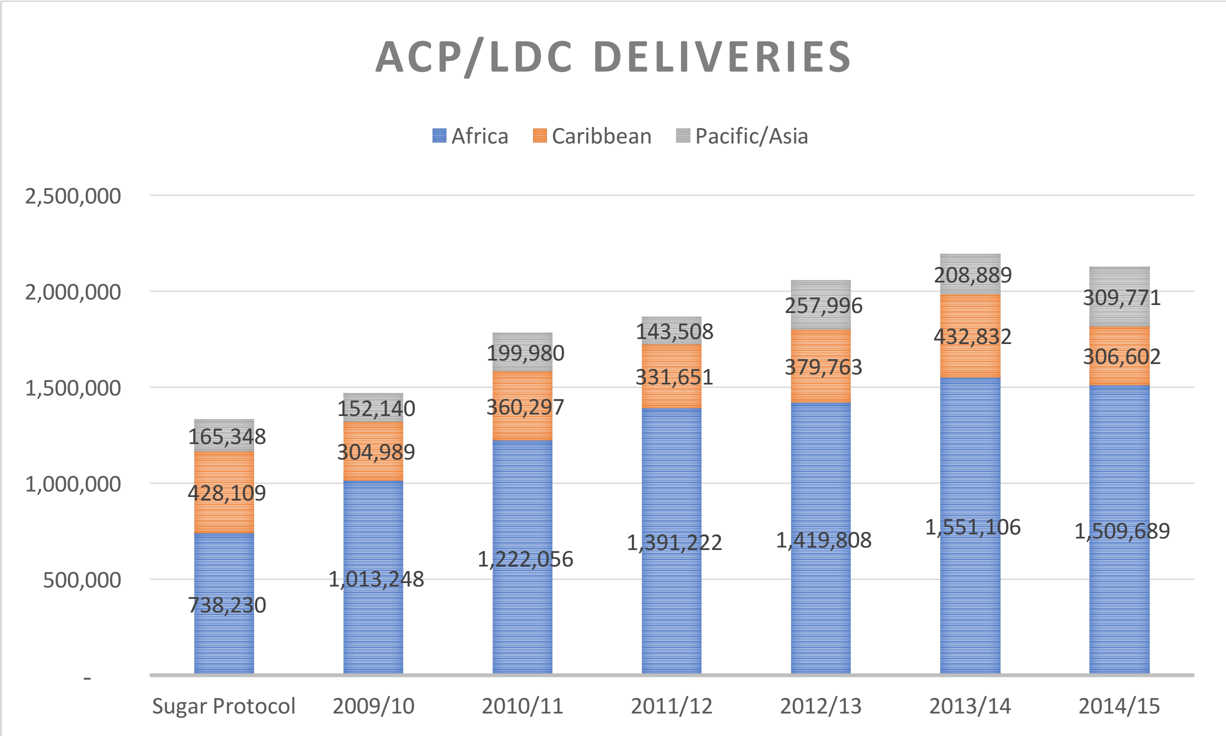
[4] The "indefinite period" was understood by the negotiators of the Sugar Protocol in 1974 to mean an unlimited period.
[5] See: https://ec.europa.eu/europeaid/sectors/food-and-agriculture/sustainable-agriculture-and-rural-development/amsp_en



The UK Market in relation to the EU

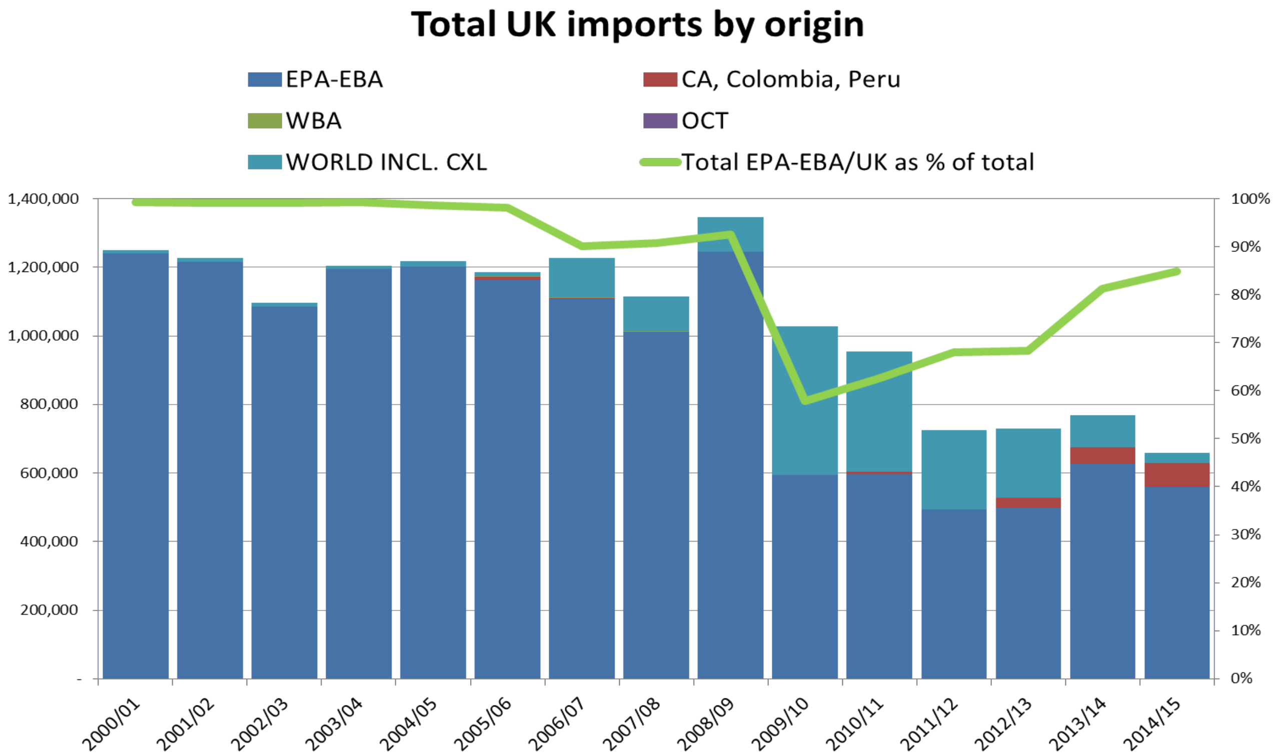
UK market is the largest deficit market in the European Union. It has an import requirement of between 700,000 and 1,000,000 metric tons. Because of the long history, traditionally this deficit was filled mainly from ACP countries supplying raw sugar to Tate & Lyle. The table below shows an estimate of the European Community's balance sheet in 2019 for sugar with and without the UK.

Estimated European Balance Sheet post 2019

	EU28 mmt	EU27 mmt	UK mmt
Production	18.4	17.2	1.2
Isoglucose	1.1	1.1	0.0
Sweetener demand	17.0	15.0	2.0
IPR imports	0.2	0.1	0.1
Industrial and ethanol demand	1.6	1.6	0.0
Net surplus	1.1	1.8	-0.7
Imports, say	**1.5**	**0.8**	**0.7**
Exports, say	2.6	2.6	0.0

It is therefore anticipated that in 2019, after Brexit, imports will have fallen to 1.5 million metric tons and, without the UK, to as low as 0.8 million metric tons. It should be remembered that these numbers include imports from non-ACP/LDC countries under FTAs and thus the market for our sugar will be substantially reduced from the levels of over 2 million metric tons seen in 2013 through to 2015.

Since the 2009 reforms, Tate & Lyle's refining business (and imports from outside the EU) have come under significant pressure from imports of refined sugar from other EU member states thus reducing the tonnage being imported from over a million tonnes to around 600,000 tons. In recent years, this pressure has intensified as other EU producers position themselves in the run-up to the end of quotas in October 2017.



Thus, while supplies to Europe from ACP/LDC countries have been steadily increasing, imports from third countries into the UK have fallen sharply, mainly at the expense of increased imports of refined sugar from mainland Europe.

Brexit therefore potentially creates an opportunity for UK policymakers to implement a regime that allows for a sustainable UK sugar industry in which ACP/LDC countries can regain and grow their traditional market in the UK. This would be a considerable catalyst for development in ACP/LDC industries.

However, there is also a threat that non-preferential sugar from the world market could not only displace ACP/LDC sugar but also refined sugar from the remaining EU 27 thus undermining the UK market as well as creating even more pressure on the outlet for preferential supplies into the EU27.

Understanding the world market price

The world market price is recognised as trading at a distorted and residual price, unrepresentative of the true cost of production in even low-cost producing areas. The market is dominated by two large exporters, Brazil and Thailand. It is estimated that only about 29% of worldwide sugar production is freely traded on the world market. Of this, about 52% is exported by Brazil alone. It is clear that many countries subsidise their sugar industries, including both Brazil and Thailand.

Some of the measures used by governments to support local beet/cane growers and processors

Country	Policy instruments
Brazil	Ethanol blending mandate and differential sales taxes on ethanol and gasoline.
India	Federal and state level fixed cane prices, export subsidies.
Thailand	Domestic sugar sales quotas, levy on local sugar sales, import licences.
USA	Domestic sugar sales quotas, import quotas, guaranteed minimum prices for beet and cane.

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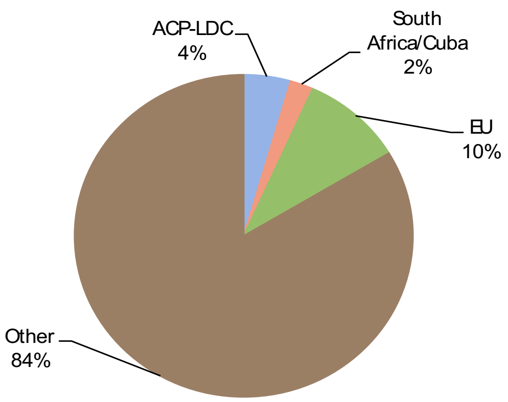
Additionally, producers in 10 EU countries benefit from Voluntary Coupled Support ("VCS") payments to beet growers, which is also a form of subsidy which sustains production at a level that would otherwise not be economically viable ([6]).

At the same time, many ACP/LDC industries play important roles in their communities through the provision of education, healthcare and other services, a cost that EU and other sugar producers in more developed countries are not obliged to bear.

EU, ACP and LDC share of world sugar production



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The world market price represents the value of a subsidised, small and residual tonnage that is exported and should never be used as a benchmark for sustainable trade arrangements such as the supply of sugar to the EU and the UK. The preferential market access that has existed in the UK and in Europe has in most cases been the foundation for the establishment and development of ACP/LDC sugar industries.

Importance of sugar to ACP/LDC Economies

The Cardno report has highlighted the continuing importance to our economies of sugar production. The Table below gives details for a cross-section of the countries studied in detail in the report.

Socio-economic contribution of the sugar sector

	Sugar % GDP	Sugar % Ag. GDP	No. employed	Date	Notes:
Barbados	<1%	6%	n.a.	2014	Sugar sector accounts for 3% of national workforce.
Belize	5%	28%	6,000	2012	Sugar sector supports 15% of the population.
Dominican Republic	<1%	9%	n.a.	2014	
Fiji	2%	14%	19,000	2013	Employment figures include both permanent and seasonal workers
Guyana	3%	15%	16,000	2014	
Jamaica	<1%	12%	38,000	2014/2010	Employment figures include both permanent and seasonal workers
Malawi	5%	15%	11,000	2014	Employment figures include both permanent and seasonal workers
Mauritius	3%	30%	~11,000	2014	
Mozambique	<1%	~5%	35,000	2014	LMC estimates
Swaziland	13%	73%	n.a.	2013	Sugar sector accounts for 35% agricultural employment; Irrigation systems run using mill-generated power.
Zambia	1%	11%	11,000	2013	Irrigation systems run using mill-generated power.
Zimbabwe	1%	~10%	24,000	2014	Sugar accounts for 95% of the Masvingo province's GDP.

[6] See: https://ec.europa.eu/agriculture/sites/agriculture/files/outlook-conference-2016-12-07-londero-2.pdf

Note:	In the case of Mozambique and Zimbabwe, sugar's contribution to GDP includes the value added by the processing sector

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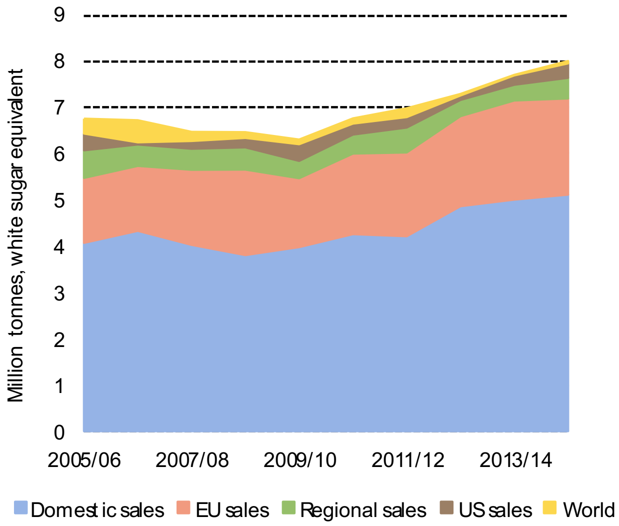
The Cardno report also highlighted the continued reliance (and indeed increasing reliance) of ACP/LDC industries on the European Union as an export market, second only to their domestic markets.

Distribution of ACP and LDC sugar sales by market



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The position of ACP/LDC industries in relation to Sugar and Brexit

The ACP/LDC sugar industries having adopted an initial position requesting that, in the negotiations surrounding the UK's exit from the European Union, the UK implements policies and negotiates trade agreements that support:

1. the continued access for ACP and LDC origin raw and refined sugars to the UK market on a duty-free basis.
2. the retention of a tariff on MFN origin raw and refined sugar at the current EU levels.
3. that the ACP and LDC suppliers be consulted fully during the formulation and establishment of UK trade policies in relation to sugar.
4. the recognition of the vulnerability of sugar industries in ACP/LDC States to distorted global markets, and the socio-economic importance to their economies and thus that, in any Trade negotiations and agreements with third countries, sugar is recognised as a "Sensitive Product" requiring "Special and Differential Treatment".
5. the provision of support to meet the solutions set out under the recommendations of the Cardno/LMC report to build longer term resilience in ACP/LDC States.

December 2016