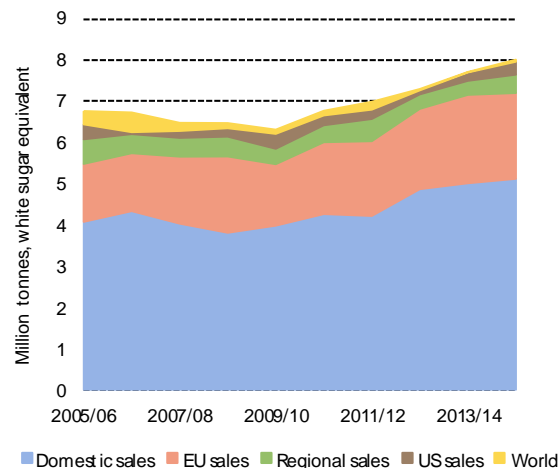


## Why the UK should treat sugar as a sensitive product in trade negotiations

In future UK trade agreements, sugar must be treated as a sensitive product requiring carefully-designed rules, because its role as a powerful tool for development and because of the risk posed by severely distorted international markets.

### **Socio-economic Impact of Sugar in ACP/LDC countries**

- A report published in 2016, commissioned jointly by the EU Commission and the ACP Group and prepared by LMC on behalf of CARDNO, highlighted the importance of sugar in ACP countries,
- Sugar has a huge socio-economic impact in ACP/LDC countries contributing to GDP and to employment in rural areas. The multiplier effect on employment and the economy is significant.
- In some ACP/LDC industries more than 90% of sales are committed to the EU.

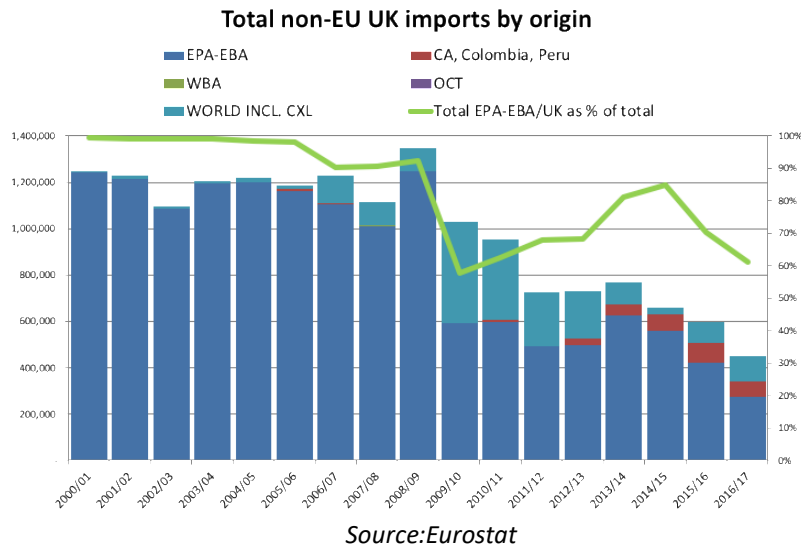


Source Cardno report

- The production of sugar is often the primary engine for poverty alleviation and sustained rural economic development in ACP/LDC countries
- Sugar cane is a proven crop that is unique in its ability to withstand the extremes of weather that exist in tropical regions
- The expansion of the cane sugar industry in developing countries goes hand in hand with the establishment of small grower schemes and projects
- 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
- Sugar industries provide much needed export earnings and tax revenues
- Sugar industries often provide healthcare, education, housing and infrastructure for their employees and the wider community
- Cane sugar production generates renewable energy and thus contributes significantly to national energy security and to the mitigation of climate change

### **Importance of the UK Sugar Market for ACP/LDC countries**

- There is a long history of sugar supply from ACP/LDC countries to the UK.
- The UK is a deficit market of around 0.6 to 0.8 million metric tons.
- The UK was the most important European destination for ACP/LDC sugar until the regime was reformed in 2009.
- The UK has always played a lead role in the granting of preferential trade opportunities to support the developmental needs of small, vulnerable economies



### The Distorted World Market for sugar

- 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.
- All major sugar-producing countries subsidise their sugar industries. As such, free trade in sugar is not always "fair trade"<sup>1</sup>:
  - √ Brazilian support to its sugar cane industry amounts to some US\$2.5 billion per annum, at a minimum<sup>2</sup>. (Brazilian exports amount to close to half of all internationally traded sugar).
  - √ The sugar industry in the world's second largest sugar exporter, Thailand, receives at least US\$ 1.3 billion in annual subsidies<sup>3</sup>.
  - √ India, the world's second largest producer of sugar, subsidises its industry to the extent of a minimum of US\$1.7 billion annually<sup>4</sup>.
  - √ In the European Union sugar industry subsidies will amount to some US\$ 665 million dollars per annums for a production which will exceed 20.5 million tons in 2017/18.
  - √ In 2014, the United States of America notified US\$1.5 billion of sugar subsidies in the highly trade-distorting "amber-box" to the WTO <sup>6</sup>.
- On average, sugar produced by these major players is subsidised to the tune of US\$82 per tonne.
- Other nations also support their sugar industries through a variety of fiscal and other tools.

### Conclusions

- ACP/LDC governments simply do not have the resources to protect their sugar industries against these levels of support.
- 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.

<sup>1</sup> See <https://www.absugar.com/perch/resources/flint-global-uk-sugar-trade-in-the-global-market-after-brexit-february-2018.pdf> February 2018

<sup>2</sup> "Government Support and the Brazilian Sugar Industry", by Patrick H. Chatenay, ProSunergy Ltd, August 2013

<sup>3</sup> "Thailand's Sugar Policy: Government Drives Production and Export Expansion", by Antoine Meriot, Sugar Expertise LLC, June 2015.

<sup>4</sup> "Indian sugar policy: Government role in production expansion, and transition from importer to exporter", by Antoine Meriot, Sugar Expertise LLC, August 2016

<sup>5</sup> "European Union Sugar Industry Support", by Patrick H. Chatenay, ProSunergy Ltd, August 2015

<sup>6</sup> 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](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)

- The UK has historically been the most important export market form ACP/LDC industries.
- The UK should therefore designate sugar as a “sensitive product requiring special and differential treatment” in its trade negotiations with third countries, including with the EU.
- Preferential trade is one of the most efficient ways of eradication of poverty and achieving Sustainable Development Goals in small vulnerable economies.

7<sup>th</sup> May 2018