HOUSE OF COMMONS

Environment, Food and Rural Affairs Committee

Oral evidence: Trade in Sugar Post Brexit, HC 824

Wednesday 28 February 2018

Ordered by the House of Commons to be published on 28 February 2018.

Watch the meeting

Members present: Neil Parish (Chair); Alan Brown; Mrs Sheryll Murray; David Simpson; Julian Sturdy.

Questions 1 - 53

Witnesses

[I]: Dr Mark Carr, Chief Executive Officer, AB Sugar; Gerald Mason, Senior Vice-President, Corporate Affairs, Tate & Lyle Sugars; Simon O'Mahony, Director (Retired), Sopex London; Professor Jack Winkler, Emeritus Professor of Nutrition Policy, London Metropolitan University.

Written evidence from witnesses:

– AB Sugar
– Jack Winkler and Tam Fry
– Sopex London Ltd
– Tate & Lyle Sugars

Examination of Witnesses

Witnesses: Dr Mark Carr, Gerald Mason, Simon O'Mahony and Professor Jack Winkler.

Q1 **Chair:** Good afternoon, gentlemen. Thank you very much for joining us. One thing that you will be very pleased to know is that this room is a lot warmer than Room 8, which we had this morning for our previous inquiry. It was absolutely freezing, so at least we have warmed it up a bit for you, and we are now in Committee Room 16. We are looking into the sugar regime and all of the things as we leave with Brexit, so starting with Simon, please, would you like to introduce yourselves across the Panel, and then we will start?

Simon O'Mahony: I am Simon O'Mahony. I am a recently retired director of Sopex, which is a Belgian trading company, and I am also the vice-chairman of the Sugar Association, which is a kind of trade association for the international trade in raw sugar. We write rules and we do arbitration.

Dr Carr: Good afternoon. Thank you for the opportunity to come to this Committee. I am Mark Carr. I am responsible for the global operations of AB Sugar, which operates in the UK, Spain, Africa and China.

Gerald Mason: Good afternoon, Mr Chairman. My name is Gerald Mason. I am senior vice-president of Tate & Lyle Sugars, and we are a cane sugar refiner. We have been refining cane sugar for 140 years in East London this year.

Professor Winkler: My name is Jack Winkler. I am the Emeritus Professor of Nutrition Policy at London Metropolitan University, but relevant to this inquiry, I was, for 13 years, chairman of a health advocacy group called Action and Information on Sugars, made up of dental and nutritional professionals.

Q2 **Chair:** Welcome, gentlemen. David, you have brought the Young Farmers Clubs of Ulster. Welcome very much here to the Select Committee. It is nice to see you here. I was a young farmer, just a few years ago—quite a few years now—so welcome to you, and welcome to everybody else who is attending. David, this is your group, is it not? I was supposed to be meeting you earlier, but I think you got stuck in security, did you not? You are very much welcome.

To get on with the questions then, first of all, what does Brexit mean for trade in sugar? It is a fairly straightforward question. It is quite a big question, really, so who would like to make a start on that then, please?

Simon O'Mahony: It is very difficult indeed, because the EU is a surplus region. As of now, it is producing a lot of sugar: 21 million tonnes. It is exporting about 3.5 million tonnes to the world, whereas the UK is a deficit country, and there are three aspects to the UK market. One is the production of beet sugar, as is done by Mark Carr, one is the refining of raw sugar, and the other is the straight importation of sugar from places, mainly from France. Those are your three possibilities.

After Brexit, there are obvious possible changes. British sugar might increase its production; it might decrease its production. Tate can increase or decrease its refining, depending on market conditions. We can go on importing, or we might end up, if production increases, actually exporting. There is then the question of whether we are allowed to export to the EU. I suspect the answer is "no", in practical terms, but that probably does not make a huge amount of difference—so it is a big issue.

Q3 **Chair:** Who wants to comment from the cane side, and from Tate & Lyle? The second question, which in a way can be linked into this, is about what the benefits and drawbacks of liberalisation of trade in sugar cane are. In a way, that is entirely linked to what may or may not happen in Brexit. I suggest that we link those two questions together. Who wants to come in now?

Dr Carr: Brexit obviously has implications in terms of the European sugar trade. The reality is that the European beet industry has undergone a huge amount of change over the last 12 years, really, with reform of the European sugar regime, and the consequence of that more recently is that European sugar beet production has increased quite dramatically in the recent past, which is both a consequence of area increase and of yield increase. That volume was entirely anticipated before the sugar regime reforms, and the European Union today is a major exporter of sugar, as was expected through those reforms.

The purpose of those reforms, essentially, was to make the European sugar sector more competitive and provide greater choice to consumers. Both of those things are happening today. The UK is a very competitive market, one of the most liberalised and competitive in the world, and it is supplied by ourselves—that is correct—but also by imports of raw sugars for refining, and, separately, beet sugars from the European Union. Probably half of it is from ourselves, and a quarter is from the other two.

In a Brexit scenario such as there might be, it really depends on whether there is free trade between the UK and the EU 27. Clearly, if that is the situation, then frankly I do not see the situation changing very much from where it is today. If it is not, then as long as the situation between Europe and the UK is reciprocal tariffs, I do not think that we will see too much change either. Clearly, the extent to which tariffs would be put in place will then determine how the whole new balance that supplies the UK market actually ends up.

Q4 **Chair:** What if we open the market up completely, and in comes the sugar from Brazil? Will complete liberalisation not have an impact on you? I am throwing devil's advocate into the pot here.

Dr Carr: I think it might; that is the honest answer to your question. The thing that we have to be really careful of when we go for complete liberalisation and unilaterally taking tariffs down is that we need to recognise the countries with whom we are trading at that point. There is evidence; there is a report that we would refer you to by ECIPE and Flint, which describes the level of subsidisation in some of the major exporting countries into a distorted world market.

If we allow complete liberalisation, and allow that distortion into our domestic market, then we run two risks. The first risk is that we potentially undermine the competitiveness of the UK beet sector, which has restructured hugely through the evolution of the sugar regime: a £250 million investment in the last five years, with 3,500 growers supporting 9,500 jobs indirectly through our factories in the east of England. It is an important sector for us, and we should be careful not to undermine the competitiveness of that sector, given the work that we have put into it. Secondly, it potentially does undermine the preference that both the LDCs and the ACPs see today.

Chair: That is a point that leads me neatly on. I do not know whether others want to comment. I am one of those sad people who was chairing the Committee on Agriculture when we reformed the sugar regime in Europe, and, for all its complexities, one good part of it is that it has a degree of protection, rightly or wrongly, for beet growers. It also allows the least-developed countries to get tariff-free access to the EU market. What worries me, if you just liberalise without looking after those particular countries, is that you will hand it over to a massive competitive producer like Brazil if you are not careful. As far as I can see, we want some liberalisation, but we do not want total liberalisation. How do we come about something in that manner? I do not know if anybody would like to answer that for me.

Gerald Mason: I can have a go at that. We are obviously the main conduit into Europe of most of the cane sugar that comes from the preferential suppliers. What is clear to me today is that already, the value of their preferential access is gone, due to the fact that the beet quotas ended last year, and the European beet sugar producers have taken the decision to increase plantings and pushed ACP sugar out of the market.

Q5 **Chair:** So that naturally will increase in Europe, and that will push ACP out of the market.

Gerald Mason: It has already done that. That is what I am trying to say, Mr Chairman. Beet sugar area this year in Europe has gone up by 20% in total, and in the UK it has gone up by 33%. The price of sugar in the EU, as Mark said, is now very competitive. Because we produce such a big surplus, it is driven by the free market price; the marginal value of export.

The sugar that comes from these countries has already collapsed in the last few years. As recently as 2014, about 1.7 million tonnes of raw cane sugar was coming into the EU from these countries. This year, we expect it to be less than 500,000. That is not because we have chosen not to buy it. We have had to downsize our business at the same time. It is because they have chosen, through their own choice, to sell it to other, more remunerative markets. They are often keeping it in their local markets. They are finding more remunerative local markets. China has opened up this year, most recently, to a lot of these preferential suppliers, and many of them are actually decreasing production.

The issue for us is that Europe has created an environment where the white sugar price is really low, but the raw sugar price—the price that we can buy at—is very high, and that has created an economic problem for us. We cannot pay preferential suppliers really high prices for raw sugar, our raw material, and then sell it at a low price. The question that you raise is a key one for the UK: how we square this circle without going back in time and recreating beet quotas and tariffs.

Chair: I do not think that we are going there.

Gerald Mason: It is very hard. The UK, if it is serious about these countries, has to look at other solutions to try to help them become competitive, innovative and sustainable in their own right. It is very difficult to see how you design a system in the UK to go back in time and put the sugar price up three times for them.

Q6 **Chair:** Is the sugar price in Europe actually set now at the same level as world prices?

Gerald Mason: By and large, yes.

Q7 **Chair:** At one time, it was quite a lot higher, was it not?

Gerald Mason: Yes. When you were the Chairman of the European Parliament Committee on Agriculture, it was around three times the world price. Today, I would say that it is within 5% to 10% of the world price. The two reforms that Europe has done, in 2006 and, more recently, in 2013, have massively changed the industry in Europe, and the beet sugar sector in Europe now is among the most competitive sugar producers in the world, including places like Brazil.

Q8 **Chair:** Your big problem in Tate & Lyle is that you are governed by the amount that you can buy and the price that you have to pay for it. Is that the situation?

Gerald Mason: The challenge that we have is that if you look at all the raw cane sugar that trades globally, on 95% of that, we have to pay a tariff that the EU sets, which today is around 140%. It is very high. It means that we cannot buy. On the other 5%, for around a third of that, we have to pay a tariff that is around 40%, and on the others, we pay no tariff, but obviously the price of that is inflated by the fact that that is the only sugar that we can buy.

For us, it is not just price. What the European rules do is take away choice. Any normal business would have a choice over who it buys its raw material from. It would make decisions based not just on price but on quality, sustainability, increasingly, and timing of delivery. The system in Europe at the moment takes away all of those choices, and that is why we feel really positive that, for the first time in Westminster here, we are talking today about what the UK might do in the future. This is, we think, a great opportunity to have a sugar market in the UK that reflects the UK's interests.

Q9 **Chair:** You will have the potential to increase production quite substantially.

Gerald Mason: Yes. Until 2009, we used to produce about 1.1 million tonnes of sugar. I think that Mark's company is going to produce about 1.4 million this year, so I would argue that in the UK we have the capacity to produce about 2.5 million tonnes. We consume 2 million, and, as Professor Winkler will tell you later, that is reducing, so the UK has the opportunity to go back from being a net importer of sugar to being an important net exporter of sugar. It is not a binary choice for the UK between beet and cane.

Q10 **Chair:** You and Mark can live comfortably together, can you? You will not steal each other's markets. This is always the issue between beet-produced sugar and cane-produced sugar. I am sorry to stir you all up this early on in the meeting, but that is the crux of the matter really, is it not?

Dr Carr: Chairman, we have the utmost respect for Gerald and his business. Competition is not something that we particularly worry about. We have to look back to what the reforms of the sugar regime have tried to do. They were essentially about consumer choice, they were about competition in the market, and they were about competitiveness of the industry.

If you look at what has happened in Europe as a consequence of the two stages of regime reform, we have had 180 plants in Europe go down to 100. In the UK, we have taken 18 down to four. We are producing more sugar today than we did when we had 18 plants. That is efficiency working. That is trade regulation driving for the optimum position of an industry. We are quite happy to compete. We think that we need to make sure that we do not try to turn the clock back into an environment of quotas, tariffs or price support in Europe that we spent so many years trying to get rid of. Gerald can rightly grow; so can we.

Part of our process over the last few years has actually been not only to grow our business here in the UK, but also to grow our product capability and volumes in the ACPs in which we operate. I operate businesses in four LDCs and two ACPs, all of which have had significant investment on the back of historic trade regulation, but also that investment now positions them well to look at the alternative markets that, today, are frankly more attractive than Europe.

Professor Winkler: You have asked a question about competitiveness. It depends on two things. The first is what trade agreements we make, not just with the EU but with the rest of the world. To say that that is undecided at the moment is an understatement, and hence what the competitiveness is likely to be is, at the moment, uncertain. That is the first issue.

The second issue is whether or not the present and future Governments in the UK take the recommendation of the Scientific Advisory Committee on Nutrition seriously. That is to say that they have recommended a halving of our sugar consumption. For someone with my perspective, it is very gratifying that the present Government have actually taken this on board seriously, and in the actual heartland of Government, which is to say that the Treasury has imposed a tax on soft drinks that will come into force in about a month's time, and Public Health England is setting about reforming the most popular sweet foods to lower their sugar consumption by 20%. That is active engagement by the Government with the SACN recommendation.

The point is that Defra has not yet engaged with that recommendation. It is still in the business of trying to help farmers produce more sugar and lower prices for consumers. The question lies ahead, in terms of competitiveness, of whether future Governments continue the engagement with this drive to reduce sugar consumption, and whether they actually take practical action to do so. If that is the case—and it is a big "if", because Ministers change, Governments change, and everything changes—then we will need less sugar in the UK, and that would affect the competitiveness about which you have asked.

Your second question was about trade liberalisation. That would be the absolute worst thing that could happen from a public health point of view. It would lower the price and increase the volume of sugar, just when we need the opposite.

Q11 **Chair:** There is always this issue, is there not, with sweetener? I can understand the reasons for reducing sugar consumption, but what does somewhat worry me sometimes is that some things that we replace sugar with could actually be more harmful than our health than the sugar itself.

Professor Winkler: What are you thinking of, Chair?

Chair: Some of the sweeteners in some of our foods and drinks. I am not going to be more specific than that—well, I could be. I am not likely to be sued in Parliament, am I? That is the issue for me. For all the faults of sugar, in my view, it is a natural product, whereas many things that we replace it with may not be.

Professor Winkler: I read rather more literature on this particular subject than most people. It is not just artificial sweeteners: we are talking about oligosaccharides, polysaccharides and new forms of sugar. There is a whole range of substitute ingredients out there. They are all food chemicals. We have to be prudent. We have to check them and test them, and monitor their interaction over a long period of time, but we have had sweeteners on the market for 150 years now, and we have not had epidemiological crises.

They are the most investigated ingredients that there have ever been, and on the balance of evidence that we have at the moment, the proven health risks of sugar substantially outweigh the potential health risks of any of the alternative ingredients that we know about so far. As a result, for most people without specialist conditions, a shift from sugar to one of the alternative ingredients would be a health gain. You read a lot of sensational material in popular media about the risks of various sweeteners. Nobody who has ever looked at the subject seriously has confirmed those risks. On the balance of evidence we have at the moment, they are safe and we would be prudent to use them.

Q12 **Mrs Murray:** This is specifically to Mr Mason, and Tate & Lyle. If sugar cane were to be sourced from the most efficient producers, how can it be ensured that quality and environmental standards are met?

Gerald Mason: Thank you for that question. It is a really important one, and one that we as a company care deeply about. The first point to make is that when we buy cane sugar for our refineries, we do not buy from a traded market. We are not buying from intermediaries, and it is not third or fourth-hand. We only buy sugar directly from the mills that we know, and often we will have relationships with the growers that supply those mills as well. That is the first point to make.

The second point to make is that one of the biggest tools that most businesses have to enforce this agenda in their supply chain is choice. If you are a business and you want to source from ethically and environmentally sustainable suppliers, one of the things that you like to have is choice, so that you can change supplier if you cannot get what you need. We do not have that, but we do a lot already with the restricted supply chain that we have.

In the last five years, we have commissioned 196 independent ethical and environmental audits of our raw cane sugar suppliers. Each of those audits has 137 different audit points, so the auditor will go to the mill and to the farms that grow it, and check. This year, we are really proud to say that for the first year, we will reach a milestone of 100% of the cane sugar that comes to our refinery in London having passed through that audit process in the last three years.

Q13 **Chair:** You physically inspect those factories, do you?

Gerald Mason: Absolutely. We do not do so as a company; we commission independent auditors who are specialists in looking for these issues, and they audit against a standard that is called ProTerra, which I would be happy to supply the committee with a little bit more information about, if you like. It is not the case that we do not do anything. We really care about where we buy sugar from, and as well as that, as you may know, we are the biggest buyer of Fairtrade sugar in the world.

We do a lot already, but the ultimate tool that we do not have to advance this agenda even further is choice. If I give you one final example, there is an international gold standard around ethical and environmental issues in the sugar industry. It is called Bonsucro. It is a special standard designed for cane sugar, and there are 75 sugar mills in the world that are accredited to the Bonsucro standard. Sixty of those are in Brazil and Australia, which we cannot buy any sugar from today without paying this 140% tariff. Seven of those are in other countries around the world that face this very high tariff.

There are only seven mills in countries that we can buy very limited quantities from through the EU's tariff rate quota system, and only one of those 75 mills has duty-free, quota-free access to the EU. That mill chooses to sell all of its sugar to America, because the sugar price is twice what it is in the EU. We do a lot. We are a business; we are not legislated to do this. We do it because we think it is important, and if we had more choice, not only would we exercise that choice with caution but it would give us the opportunity to push this agenda forward, not to bring armadas of poor-quality, environmentally damaging sugar up the Thames.

Chair: That is a fair point.

Q14 **David Simpson:** Should the Government be taking steps to maintain the UK's sugar cane refining industry?

Chair: If it is sugar cane and refining, it has to be Tate & Lyle again, probably.

Gerald Mason: We never ask for favours. That is what I want to be really clear about. We have always asked the British Government to support fair treatment for cane refining when the rules are made in Europe. What we mean by that is that if the beet sector is regulated, we are happy to be regulated, but if the beet sector is deregulated then we would like to be deregulated as well. The problem that the British Government have always had in Europe—Governments of all political colours, over the 15 years that I have been involved with this—is that there are 19 countries in Europe that grow sugar from beets, and only really two or three that have a cane refining industry. The UK is by far the biggest one.

The UK Government have always fought for what they deem a fair deal. There is some economic work that Defra did last year, which I think we referenced in our evidence, that shows that in more detail. We believe that the UK should want to have at least two competitive suppliers of sugar in the UK market when we leave the EU. Let me be very clear: we are not asking for subsidies or special treatment. We are asking for the UK to design a system that enables us to compete fairly.

Q15 **Chair:** Remind us how much tariff-free access you have at the moment?

Gerald Mason: Of all the raw sugar that trades in the world at the moment, we can only buy from about 3% of it. A lot of that sugar, as I described earlier, is choosing not to come to the EU, even though it can, because the price of sugar in the EU now is cheap—it is very low—and it can find better uses, as Mark described, in Africa, in local markets. All of the Jamaican sugar used to come to the UK. That stays in Jamaica now. Fiji announced yesterday that it does not intend to sell any more sugar to the EU. It is only 3%, but even of that 3%, a lot of it is wilfully choosing not to come to the EU, because the price is low now.

Q16 **David Simpson:** How do the costs of production and processing compare between cane and sugar beet?

Gerald Mason: There are many countries that grow both beet and cane around the world, and it is difficult to generalise, but the one thing that is important to remember is that many EU beet sugar-producing countries now, including the UK, are globally competitive. There is an organisation called LMC, which we can provide you with some data from, which is a specialist international economics consultancy. They do a cost-of-production survey every year. This year, they have sugar production in centre-south Brazil, which is the world's biggest sugar production area, within a few percentage points of the cost of production in places like the UK and the Netherlands.

There is a range of countries with a range of costs, but the concept that somehow beet sugar production is two or three times cane sugar production is a concept from the 1970s, when all of the regulations and the tariffs that we still operate under were designed for that reason.

Q17 **David Simpson:** I see Mark nodding in agreement. I do not know whether he would agree about which is the most cost-effective: sugar beet or cane.

Dr Carr: It is a difficult question to answer, in all honesty. The reality is that it depends on where you source the raw material from. Just to answer the question specifically about tariff-free raw sugar availability in Europe, it is in fact 2.7 million tonnes. There are 2.7 million tonnes today, and then there are about 800,000 tonnes that is a tariff-reduced quota, of which 350,000, I think, is €98 and assigned to Brazil. There is quite an extent of tariff-free sugar available for the European Union. I run a refinery in southern Spain and I access that same product.

The reality of the beet industry in Europe is that it has been through the successive restructuring that I talked about, and it is, in fact, extremely competitive. If you look at the tables that Gerald describes, the UK beet industry today is the most cost-efficient beet sector in the world by their definition. I would caution you to think carefully about reading that directly, but indicatively it is not far out.

We have built an industry that is very competitive, and it is important that we allow ourselves to exploit that industry—exploit it for its ability to develop the grower base that supplies it. You have 3,500 growers collectively, with 1,200 direct employees. We have some 9,500 people involved in the sugar beet industry in the east of England, so it is a very significant economic contributor, and we should allow that to flourish. For Britain, we should allow that to flourish and export substantial volumes. Gerald said earlier that this year we will produce 1.4 million tonnes through the beet sector in the UK. Over 300,000 of that will be exported on to the world market.

When it comes to the choices about raws into Europe, it is a choice about two things, and I would just like to point this out. First, it is about the attractiveness of the market, so how attractive the UK market is, relative to the alternatives. Secondly, it is about the competitiveness of the total supply chain. Your question is rightly placed. In thinking about where these sources of sugar come from to satisfy the demand in the UK, what should be most important in our minds is how we make that most cost-efficient to provide good sugar, quality sugar, and the appropriate level of consumer choice. I think that we do that today.

Q18 **David Simpson:** In relation to costs of production—you mentioned, Mark, the export potential that there is as well—with the UK leaving via Brexit, dare I mention it, pulling out of the European Union, do you see that as an opportunity for the sugar industry to flourish, or do you see it as a negative?

Dr Carr: I spent the last two years in the UK, prior to this year, substantially reducing the crop, because I could not export a very big crop that I had in 2014-15. I had to sit on it; I had to store it; I had to take all of the cost of that. That was the basis on which the sugar regime operated. This year, without quota constraints, we have been able to grow the crop. We have been able to process a very big crop, actually, and take all of the beet that our growers planted and take it through our factories. I think that we can do more. We are quite happy to consider the investment case to grow, and indeed I would prefer not to step back from where I am today.

Q19 **David Simpson:** Gerald, do you agree?

Gerald Mason: Very much so. We definitely agree. From our perspective, we have had to more than halve the size of the refinery in London since 2009. We have had to retrench, and go from being an exporter of sugar outside of the UK to the UK becoming a net importer. If we are able to get more choice, to be able to buy from a wider range of suppliers—not just on price, but on quality, sustainability, ethics, and all of these good things—then we can grow as well. We have the ability, within the next 12 months, to more than double the size of our business and really secure those 850 jobs at the two factories in east London. We like to think that they are really good-quality jobs. The average wage on the factory floor is £35,000, which is around £14 an hour.

All of that, today, remains under threat. Even today, we are losing £1 million to £2 million per month. We have tried our hardest to innovate. We have invested over £150 million in the two factories in the last three or four years. Although we have halved production, we have tripled the number of products that we make to increase the value-added end of the business, but we still need that last shove to get us over the line, to be able to choose from a wider range of suppliers. The option for the UK is not binary: "Is it beet or cane?" Within a fixed volume of the UK market, the question is how we make sure that both can flourish, and we go back to the UK being a significant net exporter of sugar and sugar products.

Q20 **Chair:** When you talk about value-added, that is brown sugars and the like, is it?

Gerald Mason: When we talk about value-added, we mean anything that is not a commodity white sugar. If you sell sugar to a food and drink manufacturer, they will typically compete on price. That is where we cannot compete, because of how the EU regulations are designed. Most of our work in the value-added area has been brown sugars, syrups, treacles, coffee syrups, and this range of markets that are growing.

Professor Winkler: I would just make a very short additional comment. From a health perspective, cane sugar and beet sugar are exactly the same. Their health consequences are equal. As a level principle, we support the case that Gerald has been making that whatever you do, whatever you recommend, you should treat cane and beet even-handedly. I am not technically competent to assess the case that Gerald has made, but it would appear that this has traditionally been the policy of British Governments, but they have not been able to implement it. At the moment, cane is treated differently and disadvantageously. One of the recommendations that you could make would be even-handed treatment of the two.

Q21 **Chair:** There was just one other part of your question: what would the UK sugar market look like without a sugar cane refinery in east London? Who wants to answer that one? What would it look like without it?

Gerald Mason: Obviously, I would be particularly sad, and so would the 850 people and the families that rely on it. Without a cane refinery in east London, you would have one producer of sugar in the UK. Obviously, it depends on how our relationship goes with the EU in the future, but if we have the same tariff structure as the EU has, you would have one producer hidden behind a tariff wall for sugar that is one of the highest in the world. That creates the sorts of conditions that people get concerned about. It creates the potential for consumer harm. Nobody is arguing that anybody would want to do harm, but those are the classic conditions for consumer harm.

Chair: Having been to your refinery, the last thing we want to see is for it to not be there. We just need to put on record the fact that it is really very much part of the sugar market in this country, and it would be a great loss without it. That is the purpose of the question.

Gerald Mason: We are very proud of it.

Chair: It is not to say that it should not be there, but what is your view?

Gerald Mason: It was Henry Tate's first refinery in London. This year is our 140th birthday. We have deep links in the community that we operate in and around the UK, from places like Liverpool and Greenock where we used to have refineries. Britain would be a sadder place without a cane refining sector, and, of course, the choice that we bring to the market in terms of the value-added products would be much more difficult. You could source that for the UK, but the value to produce those would not necessarily be added in the UK as it is today.

Chair: And there is the workforce, and everything that that brings with it.

Dr Carr: Chair, if I may just add, I think that I am already on record as saying that it would not particularly make me happy to see Tate & Lyle not there. To answer your direct question, we have no intent to see that happen whatsoever. I think we should just keep in perspective where the UK market is today. It is supplied by numerous suppliers of sugar today, and if Tate & Lyle were not there, it would need to be supplied by other suppliers in addition to British sugar tomorrow.

The reality, if you look at it, is that we are exporting 300,000 tonnes of sugar this year from the UK operation. Our European counterparts are probably doing 10 times that. White sugars flow in the world market too. It is not inconceivable that white sugars could flow into the UK under some new trade relationship as well. I do not think that whether Tate & Lyle is there or not—and I would be sad to see them go too—would make a difference to the level of trade, and therefore in any way cause consumer harm or ultimately reduce competition.

Q22 **Alan Brown:** Just continuing, in terms of future trade agreements and looking back at what has already been spoken about in terms of the removal of quotas from the sugar beet sector in 2017, and the fact that EU exports are expected to increase, overall, going forward, what would be your opinion of an effective trade agreement with the EU concerning sugar if the UK leaves the single market?

Dr Carr: The UK benefits from free trade with Europe today, so the reality is that the competitive position of the UK beet industry has been enhanced as competition has increased through successive sugar regime reforms. Frictionless trade with Europe would be something that we would like to see. If we get to a place where there are tariffs between ourselves and Europe, our request would simply be that they were reciprocating tariffs.

Gerald Mason: We have history; we know how the EU treats sugar when it negotiates free trade agreements. If I make the bold assumption that our relationship with Europe in the future will be a classical free trade agreement, we know how Europe deals with sugar in those. Europe has a very protectionist policy on sugar. It does not allow duty-free, quota-free access in traditional free trade agreements with other countries. It limits access through TRQs. That is going to be a challenge: to make sure that sugar is a full and free part of the FTA with in Europe.

Coming from the other way, a particular challenge that we have as a business is something called the rules of origin, which the Committee may know a little bit about. The rules of origin determine whether a product is truly of UK origin when it benefits from a trade preference like a free trade agreement, and not only does Europe protect its beet farmers with very high tariffs, but it has very restrictive rules of origin around sugar. Irrespective of all of the other rules of origin, it has a very special one, which says that whatever you do in a cane sugar refinery, turning raw cane sugar into refined sugar products does not confer origin.

Our concern, which is a little bit like Mark's in terms of reciprocal trade, would be that we would not want to see a situation where unlimited sugar could come from the EU to the UK, but in return our sugar would be barred from going back to Europe. That, for us, would be a worse situation than we have today, not the status quo.

Q23 **Alan Brown:** Can you envisage a magical, bespoke trade deal that is going to allow for a frictionless trade border and reciprocal tariffs with the EU, but still allow the UK to create preferential deals with third countries outwith the EU, which they cannot access just now? Is such a deal possible?

Gerald Mason: I think we are straying a bit away from Brexit and the trade in sugar, but it is a very good question. Our concern is that whatever the UK does in the future, to solve our challenge we need the UK to have power over its trade policy, and particularly power over setting its common external tariff. We need the UK to have that power.

It is very hard today to see, in any model of customs union that exists, that the UK could do that if it were not a member of the EU. Our fear would be the opposite: that if the UK were in some form of customs union with the EU but was not a member, it would get even harder for people like us who rely on Europe's trade policy. I have difficulty in seeing how that would work, but at the same time this is a unique situation, and I look forward to that discussion. Maybe there are ways that that could work. Maybe there are ways that the UK could be part of a customs union but still have some say over its common external tariff.

Professor Winkler: I would certainly support bespoke trade deals, plural, for sugar. It is now the principal food of concern around the world, and it needs special treatment. That special treatment needs to be built into our trading arrangements with all of the partners that we are negotiating with: the EU and others, including potential sources of cane. We need to put it in a broader context: not just how we can most cheaply source our sugar, but the broader picture of sugar's role in our life.

Q24 **Chair:** Simon, I am conscious that you have been rather quiet. Would you like to make a comment?

Simon O'Mahony: Thank you very much, Mr Chairman. The first point is that the FTAs for sugar are pretty minor. The most significant FTAs are ones with Central and Latin America, but the tonnages are small, and I think that they are getting smaller. There is a FTA with South Africa, which is, I think—Gerald can confirm this—quite significant at the moment, because South Africa has managed to get away from its drought and is now in a position to export.

Chair: That is cane sugar, is it?

Simon O'Mahony: That is cane sugar, yes. The point about these FTAs is that they are nice to have but they are not going to change the world. I see the FTAs from the perspective of the Commission. The Commission has set up FTAs with lots of different countries. They are all very nice but they do not really change anything very much.

To negotiate an FTA takes a long time. They have been negotiating with India for about 15 years, or maybe 20 years, and have not got anywhere yet. It takes at least 10 years. It is something for the future, so I think that you can park the FTAs. If you are worried about competition, about creating a market, about having two suppliers, you have to look, as Gerald says, to widening the sources of supply, and that means lowering tariffs. It may mean lowering tariffs quickly rather than hunting for complicated FTAs.

The other point that I will make about LDCs, which I know that we are all concerned about, is that we had a long conversation with the Commission about LDCs in the context of a country that I will not mention, which we represented. The Commission said to us, as they showed us the door, that they were not actually very interested in sugar in the context of the whole LDC arrangement. What they were interested in in that particular country was shoes.

A point that is not obvious, which Mark kind of referred to, is that the sugar industries generally, in most countries, are very sophisticated. They are not cottage industries at all. They are big organisations. The ones in south-east Africa, for example—Illovo, which is yours, and Tongaat—are top-notch. They are big companies, and it is not entirely surprising that they are not supplying the EU, because they have their own business.

Chair: That is right. The price is not good enough.

Simon O'Mahony: Absolutely, but it is more than that. In east Africa, once you grow sugar and produce it, it gets eaten, so east Africa is actually growing as a market. That is the case in a lot of places. Bangladesh is taking off, for example. LDCs as a source of sugar for the UK are a bit of a dead duck. We mentioned Jamaica as well. The whole of the Caribbean area is coming up a bit. People in Britain are used to thinking of sugar as coming from the Caribbean but it does not. Cabbages were a better crop. If you want to get sugar into the UK, you really have to have a widespread, very aggressive tariff-cutting programme.

Dr Carr: If I might just add to that, I am not sure that that is absolutely accurate. In the past, from the LDCs that I operate in in Africa, I have processed 500,000 tonnes. That 500,000 tonnes could readily come to the UK. We obviously make decisions about markets from those factories, and we would look to the market to be attractive for us. The attractiveness of the market is about how efficient the supply chain is that is receiving it, and therefore their ability to pay for that sugar.

We have invested hugely in our African operations. They are significant operations in sub-Saharan Africa, for example—typically third or fourth contributors to the economy through the local taxes that we pay. We are providing economic prosperity in those regions. That economic prosperity has its origins, actually, in preference, and the consequence of that development means that there are significant volumes there. There have been significant volumes there. They are still there; they are just making different choices.

Chair: Thank you. Good point.

Professor Winkler: Can I just take one moment to support something that the Chairman said?

Chair: Yes, please do.

Professor Winkler: In response to the comment about good suppliers, he said that it is no wonder that they are selling elsewhere, and you said, "We need a higher price in Europe". That is quite right.

Chair: I am being agreed with for once. That is a rarity.

Q25 **Alan Brown:** Going forward, if the deal that the UK has with the EU, or no deal, results in high tariffs on imports from the EU, what would be the best way to fill the 400,000-tonne deficit that the UK currently imports?

Gerald Mason: If we have no deal with the EU, and the UK, in the first instance, chooses to replicate the EU's very high-band tariffs—the 100%-plus tariffs—then clearly the UK becomes a deficit sugar market, rather than being part of a surplus sugar market in the EU. Rather than just being an impediment for Tate & Lyle but the sugar price being low, that tariff suddenly sets the price of sugar in the UK, because you have to import sugar through it. The price of sugar in the UK doubles or triples, depending on what the market price is on the day.

The UK would then have a choice to make about whether it wants to do that, and if it does not want to do that, how it goes about fixing the problem. There are various ways that the problem can be fixed. It does not have to be a unilateral removal of all tariffs. It could be through a removal of tariffs on a limited quantity, through a TRQ—an establishment of a maximum amount of sugar that could come free of tariff. It could be, in the longer term, through negotiation of free trade agreements with regions like Mercosur in Australia. It could be through the adjustment of some of the FTAs that we grandfather from the EU.

I can send you more detail about all of the technical options, but there are lots of options out there. Of course, when you look at the legislation that is coming through Westminster at the moment, and particularly what I call the customs Bill, within that Bill, there are specific provisions to determine what conditions and what things the Government would have to take into account to adjust tariffs. I am confident that all of that could happen, but obviously there would need to be some choices made by the Government first about whether they want to continue with Europe's low sugar price policy, or whether they want to adapt a high-price policy, and then, if they wanted to continue with the lower-price policy, which of the mechanisms they would choose to fill that gap.

Q26 **Chair:** Professor, your point, when you were agreeing with me, was that sugar prices need to go up. Your view is very much that if sugar prices go up, people will not necessarily use quite as much sugar, and perhaps that those who are producing it will also get a better price. In some ways, it is good for all, as long as you do not control it too far, I suspect. Is that your argument?

Professor Winkler: Yes, in principle. You have to do it gradually. We are not talking about a sudden lurch in the industry. We are not talking, even in my wildest dreams, about a sudden dropping-off of sugar consumption. This is going to take a long time—decades. The adjustment of consumption, and the production to meet consumption, should take place gradually, and that means in terms of prices as well as everything else.

On the specific question that you raised, if we had some tariff, that would be a great blessing. As Gerald has said, there are other ways around it; they can cope, and it would mark the end of what he correctly described as the EU's low-price sugar regime. That is the prospect that we should gradually be working to, and these two men right beside me can adequately cope with the amount of EU sugar that comes in. It would be beneficial to their business if you did it correctly, and it would be beneficial, in the long term, for health too, but we have to see it as part of a gradual reduction in the amount of sugar available, and getting rid of EU imports would be a good first step towards that.

Q27 **Chair:** That sounds good. Alan, do you have anything to add?

Dr Carr: In terms of the proposals that we see through Defra today, there is a proposal that we actually apportion historic TRQs to the UK. That will supply a not insignificant amount of volume into the UK, which would then be in addition to the expanded beet production. I think that if you can find a way of doing the maths and convincing yourself, even with no tariff change with the rest of the world, you would find a way to satisfy demand very adequately.

Q28 **David Simpson:** I think that the Professor touched on this one. Considering that the world sugar market is heavily distorted, should sugar be declared a sensitive product under WTO rules, requiring special and differential treatment?

Professor Winkler: In every sense of the world, both technical and common sense, sugar is a sensitive commodity.

Q29 **David Simpson:** What is your rationale for that?

Professor Winkler: It has now, by many people, been declared the greatest public health issue in the world today: not just in the UK, not just in developed countries, but all over the world. The reason for that is that we have, over the last 20 years, a global obesity epidemic, and not just in rich countries. What is interesting is that it happens in poor countries as well, including, most significantly in this discussion, Brazil, where it is called the "double burden", affecting both the rich and the poor.

That is why so many people who look at public health broadly say that obesity has replaced tobacco as the public health issue of the 21st century. It is the food—the nutrient—of particular concern at the moment, and that is likely to remain true for some time. Yes, special arrangements for the agricultural and trade policies relating to sugar are appropriate. Quite apart from the point that Mark Carr made at the beginning about differential subsidisation and there being an economic reason for treating it differently, looking at it from a health perspective, there is a very important case. It is not going to go away.

The public health world is focused on obesity at the moment. The one that is really going to put pressure on Governments all over the world is diabetes, because the financial consequences of diabetes are so extreme that it puts pressure on government budgets throughout, and on the health budget, seriously. That is coming along behind, and this is true in developed and developing countries. We have a parallel diabetes epidemic, with a lag time of five years. It is an issue for the future.

Gerald Mason: If you mean, "Is sugar, all around the world, distorted by subsidies and programmes?" that is going to be a really interesting question for the British Government to get their head around. In Brussels, the characterisation is that, if you take Brazil as an example, Brazil throws $2 billion per year into directly subsidising its sugar sector, and there is absolutely no breakdown or justification of where that number comes from. It is just accepted: the sugar beet producers say it, and everybody accepts it.

If you look at what the Brazilians argue, they argue that the maximum amount possible that you could ever claim is given to their industry is about $700,000 per year, and that there is actually no direct income support for farmers. I am not here to judge on that, and I do not think that you should ask either me or Mark to say who is right, but the key role for the British Government when they look at trade policy, particularly in the area of agriculture, over the next few years will be to try to robustly and independently get the right answer on this.

Chair: You are talking about US dollars, I take it.

Gerald Mason: Yes. My point is that this sort of argument goes very well in Brussels, and it is just accepted by policy-makers. There is no challenge to it, and one of the things that would be really positive to see, at least for me, not just in sugar but across all the sectors, is some real rigour and real challenge to some of these arguments when we bring those policies in.

Q30 **Chair:** What you are asking is whether the subsidy in Brazil is real, or whether it is mythical.

Gerald Mason: Yes. For instance, if I give you a little bit more detail, the way that the Brazilian industry argues that it is subsidised is that growers get access to lower-than-commercial-interest-rate loans to help them do things like replant cane. There is no money that they get to keep—it is repayable—and the economic value of that to the industry is around $700,000 US per year.

I am not qualified to say whether that is absolutely correct or not, but, on the face of it, that seems to be how the system works, whereas in Europe, when the beet sugar producers argue for continuations of tariffs and no sugar coming from Brazil, they will simply say that the industry is subsidised to the tune of $2 billion per year. There is no real breakdown or justification, but that gets accepted, and that perpetuates this logic that everything that is produced in the EU is terribly free-market and unsubsidised, and everything that is outside of the EU is terrible. In the UK, we have a chance to bring some rigour and independence to that argument and debate over the next few years.

Dr Carr: This is a debate that is not unfamiliar to me, which will come as no surprise. The reality is that we always contest whether they are subsidised or not subsidised, and to what extent they are subsidised.

Q31 **Chair:** Does the state subsidise the factories? There are all sorts of ways that a state can subsidise.

Dr Carr: That is entirely my point, Chairman. To try to answer this question, we commissioned an unrestricted educational grant with a company called Flint, who are an economics organisation supported by ECIPE. They have looked at the sugar industry globally and formed views as to the level of farm-gate subsidisation for all of the major producing countries, and particularly those that contribute to this distorted global market, as we refer to it.

I think that the conclusion of that is well worth reading. We can supply that paper to you, but basically it looks at Brazil, Thailand and Australia, and forms a view that, on average, the subsidisation rate at farm gates is about 20%. The funding relief that Gerald refers to is part of Brazil's equation, but you also have to recognise that the Brazilian cane sugar industry is about 700 million tonnes of cane per year, half of which goes, typically, to sugar and half of which goes to ethanol. You have to think about the cross-subsidisation from the ethanol side of cane into the sugar side of cane, and that is fairly well-covered in this paper and will make good reading for you.

Chair: We are going to an ethanol plant in Brazil.

Q32 **Julian Sturdy:** I should just raise my declaration of interest, Chair, for the Committee. When we are talking about a sensitive product, when you talk about subsidy, I just wanted to touch on a slightly different topic. You touched on it a little bit there, Mark, when you talked about ethanol. When you are talking about Brazilian cane or cane from Thailand, what about the environmental impact of growing it? Is that seen as part of that sensitive product?

Dr Carr: When I think of sensitive product declaration, I immediately think of trade, so I immediately think of a level playing field and the extent to which caution is therefore required in trade negotiations. Obviously, when thinking about supplies and free trade agreements, both the environmental credentials of the process and the efficacy of the finished product are really important. I tend to package those slightly differently, but of course, it is something that needs to be very seriously considered when thinking about long-term trade supply agreements.

Q33 **Julian Sturdy:** Gerald, you touched earlier on the topic of the specific refineries that you do not have access to. I am not familiar with how they would source their cane.

Gerald Mason: Cane sugar is a grass. It is not an annual crop. It is planted once, and then it can be harvested six to nine times over six to nine years. There are cane sugar growers who are not very good, and there are cane sugar growers that are really good, just like there would be beet sugar growers that are good and bad, and any other crop that you choose to talk to about.

For us, the issue is that if we want to choose the ones that we feel are better, that our customers feel are better and that we want to buy from, we cannot do that today. The way that the regulatory environment works is that it does not give us the choice. From my perspective, trade policy would be a very brutal and incorrect tool to use to say that everything outside of the UK is dreadful, because what you then do is stop businesses like ours being able to compete, and you tar everybody outside of the European Union with the same brush. There are plenty of really good farmers in our supply chain today who cannot be part of our supply chain today. There are plenty of farmers and mills that are not good, which we would like not to have to buy from.

Q34 **Julian Sturdy:** I completely accept that. That is a very fair point, but just delving into it a little bit deeper, is there a risk that if Brazil or Thailand suddenly upped its sugar cane production, obviously creating a larger growing area, that will have an impact on the local environment? It does not go directly into the rainforest but it takes grazing area, and grazing area goes back further into the rainforest. That is what I am trying to get at.

Gerald Mason: Cane sugar production has now been growing for many decades. Sugar consumption in the global market grows by 2 million to 3 million tonnes per year, roughly the same size as the total UK sugar market. There is new supply coming on all of the time. Sometimes that is driven by increasing planted area; sometimes that is driven by increasing yields.

Of course, the question mark is always about where new supply for land can come from. We have to be very careful as a company when we are sourcing raw material. One of the things that we are very aware of now is the debate about where new supply comes from. We have to watch out not just for environmental reasons, but because of reasons around indigenous people who live on the land—the famous land-grabbing. Absolutely, it is a question that agriculture has all over the world: "How do you produce more for more people with a limited resource, and manage the effects of that as you grow?"

Q35 **Chair:** Further to Julian's point, in Brazil, it is always argued that they plough up the savannah to plant the cane sugar, and then the cattle are driven towards the rainforest, and they gradually knock the rainforest down and infiltrate that. There is no doubt that they do that to a degree. That is an issue, but to what extent is it relevant to you when you purchase sugar?

Gerald Mason: As a company, we do not buy sugar from Brazil. We would like to buy sugar from commercial counterparties that do the right thing. Today, we cannot go to Brazil, Australia, which is another great example, or a whole range of other countries where we know that there are good suppliers who take these things seriously, and buy their raw material for our factories. Undoubtedly, it is an issue for agriculture as a whole. The challenge that we have is that we cannot get as stuck into it as we would like to. It is like a simultaneous equation. One of the things that is missing in the equation is our ability to choose the suppliers that we think do it right.

Professor Winkler: Mark Carr mentioned a little while ago, for the first time, the word "ethanol", and that relates to your question about the environment. When the ethanol biofuel replacement issue came up, the European Commission did a study, and it found that the only source of ethanol that was economically viable was sugar cane from Brazil. It is not a coincidence, then, that Brazil is now the only country that works on hybrid engines and a lot of bioethanol. It absolutely turned its motor industry around to make hybrid vehicles that could run on ethanol or petrol, with a massive country distribution.

That drive, and the shift of the motor industry to ethanol, is partly aligned behind what you described as chewing up more of the Pampas and driving the cattle in. Brazil is supporting two sugar industries: a food sugar industry and a fuel sugar industry. In some ways, there is an environmental trade-off. If your concern is the environment, ethanol biofuel has environmental advantages as well as disadvantages. Being practical, Brazil is still a growing country. It is going to grow a lot more during the 21st century, and it is going to go on using cheap motor fuel based on ethanol. You have to expect this to continue, and that will mean continuing acreage going to sugar.

Gerald Mason: My point would be that that is no different to in Europe. In Europe, the European Union has a scheme that places requirements on road fuel suppliers. One of the key sources of ethanol in Europe now is sugar beet, so in the same way that the Brazilian industry is diversified to produce not just sugar but ethanol from sugar, that is exactly what is happening in the EU.

Chair: Or biodiesel from oilseed rape.

Gerald Mason: This is much more than a Brazilian question, and it is probably a much bigger question than the debate today is about. It is a holistic question for many countries around the world, and for many crops.

Julian Sturdy: I was just trying to tie it into the rainforests, and the point that you have ploughed up that grass to grow cane, and then the cattle get pushed into the rainforest and we see the rainforest slowly being eroded back.

Gerald Mason: I am not an expert on Brazilian sugar production, by any means, but there is a wonderful lady called Géraldine Kutas, who I think may have submitted some evidence to your inquiry. She represents the Brazilian sugar cane industry, so you would have to bear that in mind, but she would be a really good person for you to take some more evidence from on that point.

Q36 **Chair:** We will probably not have any time to take any oral evidence, but if we have not already had written evidence from her, then we could seek that. Thank you for that.

The next question we sort of asked you at the beginning; it is just about whether you want to add anything to it. Is there a way to continue preferential access to ACP or LDC countries while also making the sugar cane market more competitive in the UK? I think we more or less covered it at the beginning, but is there anything more that we can add? There seems to be a little bit of difference of opinion on the panel as to whether there is still a value to taking in sugar from less developed countries. I think it was argued that there is very little sugar there now, and that the price is just not good enough in our market or the European market, but is it something that we do not need to worry about as we go forward?

Dr Carr: The reality is that we have competition driving prices down very substantially. We have had a very big yield this year, which has driven the crop to a very high level, and that has impacted on the price. That has meant that there are alternatives for the ACPs and LDCs, which have been more attractive in the short term.

That said, if I look at the business that we run out of Africa, there is a huge economic impact for the regions in which we operate. There is a huge social impact in terms of provision of education, medical facilities, housing for staff, and communities that grow up around our sugar sites. You can look at the economic prosperity that preference has generated for those countries. I see that first-hand. As the market will change—and inevitably, it will; sugar is a very cyclical industry—that preference will be utilised again by those countries. It is today, although not to the same extent as it was before, and will continue to be in the future, and there is a very good case, therefore, for keeping it in place.

Q37 **Chair:** It is preferential trade versus direct aid, in a way, in some of these countries, but it is about making sure whether it is actually working or not. That is probably the bit that I need reassurance on.

Dr Carr: If I could just add to my point—they work well together, in all honesty. There are real examples of where I have seen development in Africa that is stimulated initially by aid, but then prompts small growers to set up and prompts us to invest in our factories, with those small growers expanding their capability, and synergistically, the whole thing grows together. Trade is really important. We look particularly at land and land rights for people using aid from the UK in some of the regions in which we operate, and again, that is all about setting up smallholder operations to prosper off the back of sugar facilities.

Q38 **Julian Sturdy:** Just coming in on that, you are saying that you have seen the sugar industries in some of these countries continuing to grow and become more self-sufficient over a period of time.

Dr Carr: That is exactly right. In the accompanying measures that came after the first stage of sugar regime reform, European funding was put towards small-grower developments and a dam project in Swaziland, which generated 6,900 hectares of new land, all attributed to smallholders. Those smallholder growers have commissioned cane estates on all of that land, and had a long-term agreement with the sugar factory that was expanded. We put about 100,000 tonnes of capacity on to take all of that cane over a 30-year supply deal. That, to me, is aid and trade working hand in hand.

Q39 **Chair:** How do we roll that over now? What effect will leaving the European Union have on that regime? What is left of it, as far as Europe is concerned, will be in place. What effect will we have on it?

Simon O'Mahony: When we leave, all of these quotas—these ACP arrangements and what-have-you—will be shared out. They have to be shared out, and they will be shared out according to existing patterns. I do not think that there is any suggestion that the ACP preferences, or any of the other preferences, will stop existing. They will all continue.

The first question is whether they are as relevant as they were, or whether the ACPs have grown out of this stuff, and there are specific examples. The other question is whether we need to widen the origins that we buy from. If you look at somewhere like Mauritius, for example, Mauritius has invested and made its industry into a very modern, white-sugar industry. Other countries have not. Other countries have more or less walked away. There is an infinite variety of possibilities, and there is no guarantee, as far as I can see, that somewhere like Jamaica is going to come back to supplying Europe in a big way. I just do not think that it is on the cards.

Q40 **Chair:** Just to add a slight pebble into the pond, is it the same situation that you have with New Zealand lamb, where we are deciding that about 35% of that quota goes into the UK and the rest goes into Europe, and we are going to divide it up between ourselves? Australia, Brazil, Argentina and others are challenging this at the WTO. I am not saying that I am against this at all, but can it then be challenged by saying that it is trying to carve up an already-restricted market, basically?

Simon O'Mahony: If any agreement is challenged, step one is that we will take a piece of that agreement, and step two is that it gets challenged. We would then presumably defend that jointly with the EU in some kind of WTO forum.

Q41 **Chair:** It is quite a slow process, I imagine, to challenge as well, is it not?

Simon O'Mahony: All of this is slow, but the reassuring part of this is that it is also pretty routine. It is professionalised. I do not think that it has to be politicised. If there is a fight, it eventually goes to some sort of arbitration and it gets sorted out there. The same goes for the division. It takes time, so I do not think that that is a difficult area, actually.

Professor Winkler: In the brief for this, you raised the issue of less developed countries and preferences as a moral issue. Is there a moral obligation on us to support them? Mark Carr just made the right point about trade and aid. Sugar is a vehicle by which you do not give aid; you assist them to aid themselves through trade. If you set the price right, it also assists Gerald here, because it increases the realistic choice that he has in the future of diversifying sources of supply at a quality standard. It seems to me that this is an area that the Committee ought to make strong recommendations on.

Gerald Mason: Can I have one last go, as well? The point you make, Mr Chairman, is a really important one, about how we square the circle of the preferential suppliers. What I am really clear about is that it is economic lunacy to suggest that we can pay really high prices for sugar from this limited group of suppliers and sell it in a low sugar price market. The logic that, if we keep the status quo when we leave the EU, that is a good thing for all of these people is just wrong. They are already choosing to sell their sugar elsewhere.

There are two solutions, in my mind. One is the one that Jack puts forward: we trundle back in time. It is a perfectly valid one. We could cope with that.

Professor Winkler: Trundle?

Chair: He does not like the "trundling back in time".

Gerald Mason: We rapidly move back in time. We go back to how life was in the 1970s and the 1980s, and the UK creates a sugar price that is two or three times the world price.

Chair: I cannot see us wanting to go there.

Gerald Mason: Yes, but my point is that it is a choice that is on the table today, which we do not have in the EU, and we as refiners could perfectly cope with that. We could cope in a high sales price, high raw material price market, or we could cope in a low sales price, low raw material price market.

Chair: What you cannot do is buy a high-price raw material and sell it at a low price.

Gerald Mason: The other option, which is a real option—and I think is the one that the British Government will have to really consider, and we would be happy to help with—is to look at trying to make some of these countries truly competitive and innovative for the future. Some of them are already that. Mark describes, particularly, the examples in southern Africa. There are broadly two categories of countries: there are ones that are already globally competitive, and ones that are not—for instance, in the Caribbean.

Our experience is that you can actually do something with some of these countries, but it takes time, money and experience. For instance, we purchased the only sugar mill in Belize in 2012. It was an industry that was an important preferential supplier to the EU. It was in rapid decline; it could not pay its bills, and, at the time, it was producing around 90,000 tonnes of sugar per year. We are halfway through a $55 million US investment programme in the mill. We already have production back up from 90,000 to 150,000 tonnes. It is now the most efficient mill in the Caribbean, but it takes money and it takes focus on the detail.

You are in the factories, trying to drive every last inch of sugar extraction. You are trying to make the factory more reliable, to reduce down time. You are introducing modern control systems for the process, and in the agriculture, you are trying to explain to the two or three-acre sugar cane farmer that supplies you what they could do with things like model farms, better drainage, new varieties and different mechanisms of harvesting.

My belief, truly, is that anything is possible in these countries, but we should be under no illusion: the amount of time and, particularly, the amount of expertise and management skill that is needed is quite high. For me, if the UK Government want to adopt Europe's low sugar price policy, that seems to be the only way that we have rationalised how you can square the circle with that sort of support and commitment, both in terms of money and in terms of expertise. Whether that is an option for the British Government is something that we will find out.

Chair: The whole idea of us looking into it today, really, is to give us a series of options. It is not for us to second-guess exactly what the Government are doing, but it is something that we feel quite strongly about and feel it is worth looking at, so this is why we appreciate the evidence.

Q42 **Julian Sturdy:** Just on that point, just coming back and playing devil's advocate here, what would happen if the market was completely opened up so that there was no preferential treatment? Where would that sugar mill that you have just talked about, Gerald, in Belize stand? Would that be able to fly, or would that not be able to compete?

Gerald Mason: If we were to completely liberalise the UK's sugar market, which is one policy option but not necessarily the only one, then what would happen in the UK market is that the market would be roughly filled by 60-40 beet or cane, and that split would vary year on year depending on the relative price of cane sugar and the relative economics of beet production. In some years, Mark's business would have the greater share, in some years mine would, and hopefully overall we would be exporting.

What range of suppliers we then chose to purchase from under that option would be the next question—the one that you are asking. We would purchase some sugar from suppliers that are globally competitive—the white granulated sugar that gets supplied to food and drink manufacturers—because we would need to to compete in that commodity end of the market space, but we would continue to buy sugar from some of these smallholder farming models as well. As I said earlier, we are the biggest buyer of Fairtrade sugar in the world. We have 20,000 growers in our supply chain that are Fairtrade-orientated. For that bit of the market in the UK, where consumers and shoppers really care about that model of farming, just like they might care about the Red Tractor in the UK in the same way, we would be able to continue to buy from them under that model.

Q43 **Julian Sturdy:** Sorry to interrupt, but would that be an economic decision for your company, or would that be a moral decision?

Gerald Mason: It would be a bit of both. We have been buying sugar from these countries for 30, 40, 50 or, in some cases, over 100 years. We want to make sure that they have as good a chance as possible to continue to supply the market.

Q44 **Chair:** But you would need to mark up the price of that sugar when refined, I suspect, in order to make it stack up.

Gerald Mason: Yes. We need the consumer or shopper in the UK to be willing to pay the extra for that attribute. We have plenty of smallholder farmers that we could buy from in these countries. What we have at the moment is a substantial number of consumers that will pay, but by no means a majority. It is what I would describe as a small minority.

Q45 **Julian Sturdy:** What you are saying is that the small market share that those less-favoured countries have would not be swamped and taken over by Brazil or Thailand increasing their cane production.

Gerald Mason: I do not think, for those sorts of models, that it could be. If you look at the value-added end of the sugar market, you cannot sell brown sugar or products like that without a Fairtrade label. The sort of consumer that wants to buy those products, take them home and bake with their family at the weekend deeply cares about these things. From a market perspective, it is a cost of entry to the market, and it is one of the things that we have been encouraging growers in our supply chain to do as much as possible since we made the Fairtrade commitment in 2008. What we cannot do is make an economic choice to buy from these countries at high prices and then sell to food and drink manufacturers at commoditised low prices.

Julian Sturdy: You would just lose money.

Dr Carr: Gerald is absolutely right on Fairtrade. We just ought to recognise that Fairtrade, as a proportion of the total in the UK, is still relatively small, so it does not solve all of the problems.

I would like to come back to your other point about supplies from other countries. Gerald is absolutely right: we should work really hard—damn hard—to make sure that those smaller countries and developing countries that are able to supply into the UK are developed to an extent where they can be competitive. We try to do that in the parts of Africa in which we operate, but you have to bear in mind that when you are competing to supply into any market, if there is a subsidised competitor sitting alongside you, you are likely to be on the back foot before you start.

Whatever we do, we need to make sure that we have a level playing field. If there is a level playing field, and if countries are not subsidised, then I am very open to free trade agreements with those countries. This goes back to the point that we like competition. We think that it improves our game, but we still have to look at the detail and be very, very careful—and this goes back to the sensitive product point—that all sugar is not produced on equal terms in the world today, and significant volumes that go into that distorted trading market are not on equal terms.

Q46 **Julian Sturdy:** You might have slightly answered this, potentially, with the growth of Fairtrade, but what general trends do you see occurring in the sugar market over the next 10 years?

Simon O'Mahony: It is actually pretty straightforward. There are two trends here. The first is general economic and population growth. Everybody reckons that consumption of sugar is growing by 2 million or 3 million tonnes per year. That is going to continue. In China, they consume about 10 kilos a head. In the UK, we consume 30-odd kilos a head. Sugar is a disease of urbanisation, so as the Chinese urbanise, they are going to consume more. Sugar consumption is undoubtedly going to go up to 250 million tonnes or 300 million tonnes in the next 20, 30 or 40 years. There is no doubt about that.

What is interesting is where the music stops. What has happened since about the 17th century is that production and consumption have gone like that, in tandem, more or less. That will stop eventually when population stops growing and consumption stops growing. In the advanced countries, sugar consumption is going down slightly. In the UK, it has gone down a little bit, as well as in Australia and Italy, for sure. Eastern Europe, I think, has gone down a bit, but that may be to do with economics.

Let us say that in the second half of the 21st century, you are going to see a fall in consumption. At that point, you will have to start closing factories and refineries. That will not necessarily be hugely difficult, because the way that the industry works is that you build a factory and that factory works for 100 years if you look after it properly. There are a lot of very old factories around, so provided that everybody talks about it, the industry will shrink slightly, and it may shrink a lot if people suddenly decide that sugar is a health risk.

Chair: Surely this should stimulate Professor Winkler into a comment.

Professor Winkler: I would agree with absolutely everything that he said, but it has an implication for what you said. You said that the prediction is for a fall in consumption and fall in price in the long term—the second half of the 21st century.

Chair: Especially in the developing world that is getting a bit more prosperous.

Professor Winkler: There is one important proviso: parts of Asia are genetically predisposed to diabetes. The ability to eat more sugar and to eat more meat is normally seen as an index of prosperity, which is what we are seeing, as Simon has described. Because of the genetic risks, you are already seeing sensitivity reactions against it. There is something more going on here than the good life, but probably his prediction of the timing seems to me to be about right. Sometime in the second half of the 21st century, even in Asia, you are going to see a decline, because they will suffer the problems even more than we will.

Chair: You will see it rise up until the middle of the 21st century.

Professor Winkler: This is guesswork.

Q47 **Chair:** It is a guesstimate, really, is it not?

Professor Winkler: It is prosperity growth, and the desire to lead what is the conventional sense of the good life, which in the first instance means meat and in the second instance means sugar. That will prevail for some time ahead, but it eventually will produce its own reaction.

Gerald Mason: Could I have a go? I have a bigger view than just volume. Undoubtedly, global sugar consumption will continue to grow, and in the UK, we should not just think about the UK market; we should think about that opportunity. Over and above that, one of the things that we are seeing in our sector, like in lots of other food and drink sectors, is a rapid atomisation of the market. We are going from sugar being a one-kilo bag of sugar and a lorry that goes to a food and drink manufacturer to being a whole range of products. If you go into a supermarket and look at what we call the sugar fixture, there are dozens and dozens of products in there today, compared to a handful 10 years ago.

Chair: What I call fancy sugars and the like. There is a market there.

Gerald Mason: Yes. On the one hand, you have what we call premiumisation at one end of the market, where you have people who are willing to try and taste new flavours and experiences, and who are interested in the supply chains. They want to engage with that, and take it home and do baking, and suchlike. On the other hand, at the other end of the market, you still need to produce quality sugar, but it is very price-driven, because at the other end of the market you have a section of shoppers who the retailers are trying to attract based on price.

That is the same in sugar as in any other food and drink sector. The out of home sector is another big change for us, as well. More and more of the food and drink that we consume is out of the home, rather than purchased in a retailer and taken home to make. That is having an effect on our sector as well. We have to focus more on coffee shops, sugar sachets, and things like that than ever before. That is one trend that is really clear, and you can only really get involved in that if you have the desire to innovate. It is a very innovative section of the market. You have to make a big investment.

The other thing that is really interesting in the sugar sector is, if you go back to the agricultural crop, people are finding more and more ways to use the sugar crop, whether it be beet or cane. If you take the sugar cane crop as an example, we have obviously heard today about ethanol. Another common use, which is becoming more and more popular, is to generate power from the bagasse—from the cane. Let me take a step back: when you take a stalk of cane from the field, you will extract some sucrose from it, but you are left with much more by weight of fibre—what we call bagasse. That is often used to generate the power that drives the mills, and also to deliver power to communities.

The other things that some people are beginning to look at now include some really exciting things, like replacing plastic packaging with bagasse-derived packaging. Next to one of our sugar mills in the US, we are just commissioning a $75 million factory to take bagasse from the cane that we grow in Florida. We use some of it to power our mill, and with the surplus that we have left over, we are going to be making 6 million biodegradable bagasse plates per day, to replace plastic plates.

Q48 **Chair:** Will it be genuinely biodegradable? There is an argument that many plastics, because they do not biodegrade, break down into smaller particles but they do not break right down.

Gerald Mason: Let me take a step back. We are not making a plastic from the bagasse; we are actually taking the bagasse—the fibre from the crop—and compacting it into a plate. That will biodegrade in 60 to 90 days.

Q49 **Chair:** So you are not altering the plant, really. You are just using that.

Gerald Mason: We are not altering the chemistry, correct. Your question was about how we see the sugar market developing. There is an underlying growth in the total global market. There are some interesting innovation opportunities for businesses that want to get at them, around the premiumisation and the out of home sector—like there is across the food and drink sector—but the crop itself is really interesting, and there is some interesting innovation around how you use some elements of the crop. It is not just a crop that you extract sucrose from. It is quite an exciting sector to be in.

Q50 **Alan Brown:** You have obviously touched on ethanol and biofuel. Is the use of biofuel for renewable energy a possibility in the UK itself, as well as elsewhere?

Dr Carr: We already produce biofuel in our Wissington facility. We produce about 18 million litres per year on the back of a sugar juice stream, rather than sugar per se, but it is part of the co-products that come out of the Wissington factory.

Just to add to Gerald's point, actually, these factories that we run—the sugar factories—are bio-refineries, and they are very good examples of a circular economy. We not only produce sugar: we produce power, ethanol, topsoil and all other bits and pieces. There is no waste in these factories, and I think that that is truly part of the innovation that is going to come in the sugar industry over the coming years.

Could we do more ethanol? Yes, we could, but it would be with investment. That will come back to the extent to which we see the RTFO regulations come through, and ultimately E10 come through, in the UK market. We hope that that is finding its passage through currently.

Alan Brown: That might come up at Transport Questions tomorrow.

Chair: Simon, you have been very quiet. We will bring you in again.

Simon O'Mahony: I have nothing to say about biofuels at all. What I would say is we have been talking about level playing fields and what-have-you. The point about sugar, which took me about 20 years to figure out, is that sugar is not grown to eat. It is a political deal. You find a piece of land; you put up a factory costing $100 million; you recruit anything from 100 farmers to 30,000 farmers to supply your factory; you run the factory for 100 years. The factory, in India, is probably run by a Member of Parliament. In Brazil, it is all very political. You have something where the factory is the slave of the farmer, and the farmers are the slaves of the factory, for 100 years.

It is not an industry; it is a social activity, and talking about subsidies is, in many ways, misleading. If there is any chance of these factories getting into financial trouble, someone will sort it out for them, one way or another, and you are not getting a level playing field. I cannot think of a country in the world, except possibly Australia, where there is actually a genuine, market-based sugar industry.

Chair: What you are saying is that there will always be some interference in the market, one way or the other.

Simon O'Mahony: In spades, yes. Therefore, to some extent, Britain has to have the courage to say, "Okay, some of these countries are dumping sugar on us. Maybe we will accept that". You just have to consider that possibility, rather than doing what a lot of people do, which is to hunt around and say, "Is this fair?" It is not easy but you have to be a little bit courageous sometimes.

Gerald Mason: It is also a question of relativity. It is not a question of absolutes. In Europe, the sugar beet industry will portray itself as completely liberalised, but in 10 of the 19 countries, they get this voluntary coupled support: €170 million per year, directly to grow sugar. Of course, all of the farmers who grow sugar in the EU benefit from the income support payments, so it is quite a hard picture to unpick. For us, one of the things that is really exciting is that the British Government will be able to look at that properly going forward, and make an independent and robust judgment about some of these arguments.

Dr Carr: Just for the record, there is no direct subsidy on sugar beet in the UK.

Chair: Only indirect, I suppose, through the basic farm payment.

Dr Carr: As is true in most farming communities around the world.

Q51 **Chair:** Yes, for cereal and what-have-you. What effects will a sugar tax have on the market for sugar in the UK? It is not really a sugar tax, is it? It is a tax on a few drinks. It is not a sugar tax across the piece, but what effect do you think it will have? Professor, do you want to answer?

Professor Winkler: It will be seen next month, or in April, to be one of the most successful nutrition policies that there has ever been, right up there with the salt reduction programme. It pains me to say that, but it has led to a massive reformulation of soft drinks to reduce their sugar content in order to avoid the tax. The structuring—what, at the time, was the unique structuring of the tax, with the graded levels—actually worked exactly as it was intended to do. It stimulated the reformulation and reduction of sugar.

On 1 April, you are effectively going to have only two products of public health significance—red Coke and blue Pepsi—that will be subject to the full tax. What is relevant for you, Chair, in the way that you phrased the question, is that that is going to open a free-for-all season in proposals for additional taxes on other products and on sugar itself. Throughout the second half of 2018, there is going to be a lot of debate about whether we need a sugar tax or not.

Knowing the technical issues in reformulation a bit, other taxes on other sweet products would not work as effectively as they have on the soft drinks industry levy, and I think that it would be a mistake to go down that route, but that will be a big debate. I suspect that the Government will be disinclined to do it, which is why one of the points that I made in my submission to you was that altering the price of sugar through agricultural policy is a more politic way to do it than imposing a tax on popular foods.

Q52 **Chair:** Do any of you other gentlemen want to make a point on a sugar tax? You welcome it, do you?

Dr Carr: I think that Professor Winkler knows our view. This is not at all, in any way, to belittle the debate on obesity. It is a very serious issue, and a serious issue that all of us must address. When we look at the obesity debate and immediately resort to sugar, that is wrong and that is misleading. Sugar has a role, the same as many other caloric foods have a role, in obesity, and therefore we may contribute to the issue. We therefore need to make sure that we work with Government and all of the bodies that sit around thinking about food and nutrition for the population, to improve the situation.

We have worked with many companies on reformulation. We are seeing reformulation, not least in sugar-sweetened beverages, but in many other applications as well. Our focus on that is the functionality of sugar, so what sugar does in a food, and it does many things. It may be that a soft drinks levy is appropriate, and will have impacts, but I would like to think that we look at a more holistic approach to solving the obesity problem in a broader sense.

Q53 **Chair:** There is no doubt that a balanced diet is what is needed. I have too much weight, but that is not because I eat the wrong food; I just eat too much of it. I am being quite serious now. It is about how we deal with what people eat, and it is always the most difficult thing for politicians to deal with: saying, "Thou shalt not eat that", and "Thou shalt eat this". It is not so easy.

Professor Winkler: As he commented on mine, let me comment on his. I am the first to agree that obesity is not just an issue of sugar. It is the total diet.

The second point is to disagree: sugar does have a distinctive effect, which is a distinctive role in the creation of obesity and diabetes. I did not put it in the submission to you, because it gets into nutritional jargon, but it is called insulin resistance. Sugar produces the flow of insulin. After a while, you get resistant to insulin, you store up the fat, and then you get into diabetes as well as obesity. There is a distinctive case for why sugar is a nutrient of concern, but it is not the only nutrient of concern, and part of what you could be doing is saying, "Let us broaden the scope of what we are doing, to deal with obesity beyond sugar".

Chair: Gentlemen, thank you very much. It has been a really fascinating afternoon. We have drilled down very well. We will try to put this together into a short report, and go to the Government with it. I know that we have been lobbied by you and by other organisations to look at what is happening vis-à-vis sugar, and what we have had today has been a very good debate and some very good evidence. We will do our best to put together a good report and present it to Government with a series of options. As I said to you at the beginning, it is not for us to tell the Government exactly what to do, but to perhaps give some ideas to them, and a way forward. We wish you all well. Thank you very much, and thank you for coming through in this interesting weather that we have had today. Thank you very much.