

International Trade Committee

Oral evidence: Trade and the Commonwealth: developing countries, HC 667ii

Wednesday 2 May 2018

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Mr Ranil Jayawardena; Mr Chris Leslie; Emma Little Pengelly; Julia Lopez; Faisal Rashid; Catherine West; Matt Western.

Questions 164-195

Witnesses

I: Gerald Mason, Senior Vice President Corporate Affairs, Tate & Lyle Sugars; Paul Kenward, Managing Director, British Sugar, and Board Member, AB Sugar; and Dr Ben Richardson, Associate Professor in International Political Economy, University of Warwick.

Written evidence from witnesses:

- [Tate & Lyle Sugars](#)

Examination of witnesses

Witnesses: Gerald Mason, Paul Kenward and Dr Ben Richardson.

Q164 Chair: I welcome the members of the panel to this meeting of the International Trade Committee. We are grateful to have your attendance for our inquiry into trade with Commonwealth and developing countries. I have just been told by the deputy chairman that the first record he ever bought was “Sugar, Sugar”.

Mr Evans: By the Archies.

Chair: More detail than we ever needed on a Wednesday morning. Can I ask the panel to introduce themselves for the record—name, rank, and serial number—starting on my left?

Dr Richardson: Ben Richardson. I am assistant professor—sorry, associate professor—in politics at the University of Warwick.

Chair: We are glad for the clarification.

Paul Kenward: My name is Paul Kenward, and I am a board member of AB Sugar, the vehicle that owns ABF’s¹ sugar interests, and I am also the managing director of British Sugar in the UK.

Gerald Mason: My name is Gerald Mason, and I am senior vice-president at Tate & Lyle Sugars.

Q165 Chair: Thank you very much. Mr Mason and Mr Kenward, can you briefly outline what involvement your companies have with the producers of raw sugar in developing Commonwealth countries, starting with Mr Kenward?

Paul Kenward: AB Sugar owns 100% of the Illovo Sugar group in southern Africa, so we have interests in Malawi, Mozambique, the Republic of South Africa, Swaziland, Tanzania and Zambia. All those countries are members of the Commonwealth and four of them are “least developed countries” under the UN definition—all of those six, except for Swaziland and South Africa. They export sugar in varying quantities in different years to the European Union. At British Sugar, we also act as an agent for the Mauritius Sugar Syndicate and sell white sugar from Mauritius into the UK and also on into Europe.

Gerald Mason: We have been refining cane sugar for 140 years down in east London, and as part of that business, we have been dealing with the sugar-producing countries in the Commonwealth for all that time. If you look at the whole list of the Commonwealth countries, there are only about 11 that now export sugar to Europe, out of more than 50 countries. Of those 11, we still have relationships with and purchase from about 10. We purchase through the economic partnership agreement arrangements

¹ ABF refers to Associated British Foods plc, the parent company of AB Sugar and its businesses



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mostly, which I know your Committee has looked at in some detail already. As well as those commercial relationships, we also own the main, largest sugar mill in Belize, which is still an important Commonwealth sugar exporter—we still bring most of the Belize sugar here to the UK.

Paul Kenward: I should probably add that we also own a refinery in Spain, which also imports cane, so we import cane raws from Commonwealth countries into Spain, again, in varying quantities in different years.

Q166 **Mr Evans:** I want to drill down into some of the EU's former colonies. Clearly, you have touched on a few with us, but France, Holland and a few other countries have former colonies that produce sugar. Can you explain the preferential trade arrangements that exist between those countries and the European Union?

Gerald Mason: I think what you mean is what are called the French département d'outre-mer. Technically, those regions are actually part of the European Union. In a very crude way, I tend to think of them as Lincolnshire in the Indian ocean or the Caribbean. Technically, it is not actually a trade relationship. We buy raw sugar and direct consumption cane sugar from both those countries, and when we buy it, we are not technically importing sugar—we are buying sugar from an EU producer. They are a very small part of the EU supply—I would say they are 2 or 3 percentage points of the EU's cane sugar supply—and they are relatively high-cost industries that are, generally speaking, trying to move up the value chain to produce higher-value sugar.

Q167 **Mr Evans:** The outre-mer are treated exactly like the European Union, then.

Gerald Mason: Absolutely; they are no different to a beet sugar farmer in East Anglia or France. In fact, that is not technically true. They do get some extra subsidies from the European Union because they are in a particularly challenged environment. I do not know the detail of those, but I can send you some more detail if you are interested.

Q168 **Mr Evans:** There is a distinction, though, between the outre-mer and various other former colonies.

Gerald Mason: Absolutely. The Commonwealth countries that we buy raw sugar from are not part of the European Union, and they can only trade with the European Union if they and the European Union agree some sort of trade agreement, which they have. When we bring sugar from those countries, we have to go through customs procedures to bring it into the marketplace, whereas with the DOM producers—Réunion and Guadeloupe—we do not have to do any of that. They are effectively a purchase from another EU sugar producer, even though they are in another part of the world.

Q169 **Mr Evans:** Do you want to touch on what sort of customs arrangements those countries face in the Commonwealth?



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Gerald Mason: I can, if that is interesting. We are the biggest importer of cane sugar in Europe. Cane sugar, if it is not from one of those preferential countries, faces a very high tariff—around 150%. That means that the customs procedures tend to be quite complex, because the EU is trying to protect its revenue stream; it is trying to make sure that we're bringing sugar from the correct countries and we're able to bring it in tariff-free.

Even then, however, we don't find the customs procedures particularly onerous. We did some work looking at the cost of the customs procedures to our business and we estimate that it is between 0.04% and 0.06% of the value of the sugar that we bring in, depending on whether we bring it in the big ships directly to our own jetty or whether we bring it in the smaller containers through an external port.

I know a lot of businesses that do not trade with the rest of the world are very concerned about customs procedures and trade procedures in the future. It is part of our DNA; it's just another business process. Our experience is that it is relatively straightforward, once you've set it up as a business process and you've got the skills to manage it.

Q170 **Mr Evans:** Is it the same with you, Paul?

Paul Kenward: To go back to the start of the question, I don't think that countries are recognised as having trading partnerships with Europe because of the fact that they are former colonies. There are Everything But Arms agreements, as I'm sure you know, which are set up to support the least developed countries, as defined by the UN, and then there are also economic partnership agreements with various different groupings, and actually a lot of Commonwealth countries are captured in those. But it was never done because they are Commonwealth countries or former colonies.

Now, as we import sugar, actually moving boxes of sugar around the world is quite a complex thing. I used to be a board director of Czarnikow Ltd, which is a sugar trading company, and they have built a very good business out of taking away some of that difficulty from sugar businesses.

I think that setting yourself up to do it can take some time. I have exported sugar this year from the UK to Italy, as an example, and that is within a single market and within the customs union, and I have to sign VAT declarations in quadruplicate multiple times to try to get through that.

Just moving boxes of sugar within the European Union can actually be quite difficult. I wouldn't overstate how difficult that is; it is just signing some papers. But before I sign papers, I have to check I am signing the right papers and I have to make sure that I am signing in the right capacity. So there is some friction.

Q171 **Mr Evans:** That is interesting, because I never even perceived that there would be a problem. Is that because there is a different VAT regime in Italy?



Paul Kenward: Yes. That particular example is because of VAT. Within the single market and the customs union, as you will know, there is not one single VAT entity, so you have to interact with different countries. In Italy, it is quite onerous, so you have to register locally as a VAT-registered business and work with people.

There is a way that we get round that. We haven't been able to export from the UK for a number of years because of a WTO ban—that was imposed because of what was a very illiberal sugar regime, which ended in October 2017—so we have only just started to export, and to navigate what is a thicket of regulations we tend to use agents. So we use Czarnikow, Sucden and various different companies that help us with the paperwork.

Q172 **Mr Evans:** Perhaps, Ben, you could touch on the abolition of the Sugar Protocol and what impact that has had on the countries we're talking about.

Dr Richardson: This arrangement, which guaranteed select former colonies access to the European Union at protected guaranteed prices, came to an end in 2007. Prior to that, you had the Everything But Arms agreements. Basically, some countries had access duty-free and quota-free, which they didn't have previously, and others saw the prices that they had hitherto benefited from diminish.

In some countries, like Zambia and Cambodia, the Everything But Arms agreement was a factor, I think, in the expansion of sugar production, which had positive aspects to it and negative aspects to it.

In the countries that had historically benefited from the Sugar Protocol, generally the impact was detrimental. With Trinidad and Tobago, I think that was a factor in their decision to close down the entire industry. It put pressure on other suppliers, like Guyana, Belize, Jamaica and Mauritius, and they have all responded in different ways. Broadly, one can say that the reform has been developmentally problematic, I think.

Q173 **Matt Western:** My question is to all three of you, alluding to the response Dr Richardson just gave. How much and in what ways do the sugar producers in the developing Commonwealth countries depend on the tariff reductions afforded to them by the EU's economic partnership agreement and the unilateral Everything But Arms arrangement?

Gerald Mason: That is a great question. For the Commonwealth countries that have access under the economic partnership agreements, that basically means they have the right to sell sugar to the EU without a tariff, whereas most other suppliers do face a tariff. The value of that to them depends very much on the price of sugar in the European Union marketplace, and that is what has really changed over the last few years.

It is not necessarily the EPA itself that has made a difference; it is the fact that Europe has made some reforms to its domestic sugar policies. It has deregulated beet sugar producers—the domestic farmers in Europe—who can now produce as much as they want, and in many countries it also



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pays them direct cash subsidies to lower the cost of growing sugar. So the issue really is not of the EPAs themselves; the issue is that the domestic sugar policy in Europe has been reformed and we have gone from a very high sugar price policy—two or three times the world price—which meant these countries could sell their sugar to the EU and get a very good return, to one now where, because of these changes, the sugar price is at or around the world market price.

What is happening is that, because of that move from a high sugar price policy to a low sugar price policy, these Commonwealth countries in particular are choosing not to sell their sugar to Europe. They still have access, and they can sell if they want, but they are choosing not to. Five years ago, the Commonwealth producers of cane sugar sold about 1.7 million tonnes of their production to the EU and this year we expect it to be not much more than half a million tonnes, so it has fallen by over two thirds in five years.

For me, the real issue is not just the EPAs and trade policy on their own; it is how that interacts with the other policies we have that affect these countries, like domestic agricultural policy and development policy. Our experience is that that has been quite badly managed by the European Union. They have been operating these three separate policies in silos, and for me that is what is quite exciting about bringing these policies back to the UK: when the UK Government looks at them, hopefully we will be able to look at them much more in the round and consider the impacts of all of them together.

Q174 **Matt Western:** The price was maintained artificially high up until a few years ago. How has that—

Gerald Mason: Correct. Up until October 2017, there were limits called quotas on the amount of beet sugar that producers like Paul could sell in the market. Those quotas were set at less than the total sugar consumption in the marketplace. Those limits meant that there was always space in the marketplace for cane producers. Tied with the fact that there were very high tariffs on other producers, that created value: it created high prices in the market and value for these Commonwealth suppliers. Of course, that has gone now.

One of the challenges we have as a business is that that leaves us in a place where we are having to sell sugar in the marketplace in the UK and Europe that is very low, but we are still reliant on a small number of countries that, generally speaking, are choosing not to sell sugar to Europe now. Europe has had a very low-priced beet sugar policy and still has a very high-priced cane sugar policy. That is affecting not just the Commonwealth producers; it is affecting us as a business in the UK.

Paul Kenward: I can answer this question from two different perspectives—three, actually, probably, and hopefully all are helpful. First, we do own estates in Africa, which are part of those Commonwealth countries of which you speak, so I can point to significant development outcomes which have been a direct result of those EPA agreements. If you



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look at Swaziland, that is a good example of trade and aid working together, where DFID supported the establishment of smallholders. You get direct economic activity in small cane growers being able to grow and also grow other crops. You get women able to become economically empowered—that, again, is a specific UK trade aim, and you can see that happening across our countries in southern Africa.

Because you get that extra cane supply, as a private business we have been encouraged to invest; so we have added another 100,000 tonnes of capacity in our factory, to produce more. In some of our countries in Africa, the sugar business can be above 6% of the country's entire GDP.

There are very significant economic benefits that flow from being able to export sugar to the European Union under those preferential terms. The preferential terms at zero tariff work only if other countries are not at preferential terms. You need both bits for that to work. I know that my colleagues from the Southern African Development Community, who I think have spoken to various members of the Committee, very much value the preferential access that they get to the European Union.

The second perspective is as an importer; we also refine and have a refinery in Guadalete in Spain. We import cane, largely under EPA and EBA. For the last few years, generally we have not been paying a tariff. There is access to 2.7 million tonnes of sugar under EPA and EBA, so we have a supply. It is a complex market, so sometimes we buy through traders and sometimes directly, but certainly we will buy from those players.

How do you make money as a refiner in Europe? It is not easy, but it is not easy to make money as a beet producer, either. This year, the cost prices in Europe are the lowest that they have ever been after the fall of the sugar regime. Tereos, a major French producer, has said that it will lose money; Südzucker has said that it will lose between €100 million and €200 million in the European sugar business. Nobody is making money in world sugar at the prices that we have. At Guadalete, to buy well, you need to be a trader: you need to buy sugar raw at a low price; sometimes you need to sit on it for a while and store it, then you can sell it later at a higher price; and you need to be incredibly efficient.

We have invested a huge amount of money at Guadalete. It has combined heat and power, and it exports electricity to the grid, so it is not a net electricity importer. That costs a lot of money—it is five years old—but it means that we are very efficient. If you walk around our Guadalete facility, you will not see many people; it is incredibly automated. We have taken the challenge of the new sugar regime and the new lower prices as a push for us to drive our costs down in all our factories. We do not always run Guadalete, but where we see opportunity, we will buy cargos. At the moment, the price that we pay for beet in Spain is relatively high, because we have to persuade farmers to grow the crop and not grow other crops. Actually, although the world sugar price is as low as it is, it is cheaper for us to buy cane and refine it than it is to grow beet and refine it. It is a really complex area.



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The final area is British sugar in the UK. People do not realise this and there is no reason they would, but we grow 9 million tonnes of sugar beet, which is a root, in East Anglia and the east midlands, with 3,500 farmers. We process it in our four factories. We have no direct subsidies; Gerald is right that there are 11 countries in mainland Europe that do, but we do not, although farmers receive basic payments through the CAP. We compete exceptionally hard in a very competitive market with white sugar from overseas, which comes in largely from France. In the UK market, British sugar from beet has about 50% of the market—25% comes from imports, which go through Gerald's facility at Tate & Lyle, and the other 25% is from imports that come directly from France. It is a very competitive market and it is tough at the moment, with prices where they are. To go all the way back to answer the question, there are clear benefits from the EPA for those developing countries.

Dr Richardson: One benefit of the traditional access that Commonwealth countries had to the EU prior to the reforms ushered in in the 2000s was that this high price was stable, so it gave some insulation to market volatility, which is difficult for producers in smaller countries to hedge against. The price was relatively remunerative, which meant that they could use that to support the ancillary services, which distinguish sugar production in some of the poorer parts of the world from some of the richer parts. For example, many of these companies will subsidise healthcare for people in the local community; they will run social clubs, provide schooling facilities, bus transfers and all the rest of it.

When the reforms in the EU began from the 2000s onwards and drove down the price, you began to see these services cut. Paul gave the example of Swaziland. When I visited, while it was true that they had used some of the accompanying aid money to facilitate the entry of smallholders into the industry so that they could provide cane to the mill, at the same time the mill had taken the decision to become more competitive by slashing a lot of these services that were deemed "non-core", and by retrenching workers who were waged and casualising or outsourcing others. This is an example of the uneven effects of reform within a country.

Looking forward, it would be problematic, to say the least, if the preferential access that countries remain reliant on, even at these lower prices, were to be removed. That would have quite significant consequences in these countries, which are significant employers. Another important difference to remember is that sugar production in poorer parts of the world tends to be much more labour intensive. Guyana, which produces a fraction of what British Sugar produces, employs far more people—there are something of the order of 20,000 direct and indirect jobs through the supply network. Those jobs are concentrated in particular places—in rural areas—and it can be extremely hard for people to find other work, especially when they have been in sugar all their life. So there are particular sensitivities around preferential access for these countries, not just because of their former colonial status, but because of what sugar



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has come to mean for them and how they have essentially built both the state and the economy around those key export industries.

Q175 Faisal Rashid: Very quickly on the point you just made, Paul, it seems to be a very complicated and competitive industry. You mentioned last night at the dinner that most of the sugar producing refineries are probably loss-making across Europe as well. I know you cannot say that for certain, but it looks like that from the figures we have from Tate & Lyle. What is the solution? What can be done? Obviously, you source from the cheaper part of the world and that will help to keep costs lower, but that is not the only thing.

Paul Kenward: No. How do we get profit from our refinery? We look over a cycle. The sugar market is the most volatile of all the soft commodities, and it tends to range quite widely. In my eight years in sugar, I have sold sugar at anywhere from €700 down to €350 a tonne. I do not have much impact on that price—it is set by the world market—so I have to try to make a profit across the cycle. I will make good profits at €700 and I will make low profits at €350, and I need to average through the cycle and make investments on that basis.

To be profitable through the cycle, you need to drive efficiency. You do need to have access to raw materials. In the UK, we have worked very hard to increase the beet yield. We have increased beet yields by 25% in the last 20 years—more than any other crop in the UK and more than sugar beet anywhere else in the world. At the refinery in Guadalete, we work hard to optimise our cane intake. We generally buy from EPA/EBA at tariff-free rates, and we have a deep-water port. We have combined heat and power. We have a very efficient refinery. We have worked really hard to reduce our costs so that, through a cycle, we can make money.

If your refinery is efficient, you should be able to import sugar from an origin, refine it efficiently and export it to another origin; it does not have to stay in the market where it is produced. If you look at some of the big, modern refineries in the middle east—in Dubai, for example—and Thailand, they are extremely efficient. Those are the places where they will play the spread between the price of raws and the price of white refined sugar, and they will make money. But you have to be a trader. You have to be smart about having a desk full of people with rocket science degrees, who are good at spotting trends and understanding where markets are moving, and then you can use financial instruments to make money through a cycle.

Gerald Mason: I'd like to have a go at that.

Chair: Briefly, if you can.

Gerald Mason: Everybody knows that we lose money in the UK. Our refinery in the UK loses €1 million to €2 million a month at the moment. As a refiner, the important thing is not the absolute level of price—as Paul explained for a beet producer—but the difference between the raw material price and the sale price. That is where Europe's policies make us



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struggle, because we have a very cheap white sugar policy, but we still have restrictions and a very high-price cane policy as a result. That is one thing that needs to be solved. We hope the British Government will look at that. Finally, the second thing that is important is that while everybody has to be efficient, as Paul describes, there is a lot of opportunity in the market for value added. There is a whole range of bits of the sugar market, such as brown sugars and syrups—the out of home sector where we produce more—which should also be a focus, not just for us, but for these Commonwealth countries, if they see themselves having a future in the European marketplace.

Chair: We will have to pick up the pace, and to demonstrate that we will turn to Mr Jayawardena.

Q176 **Mr Jayawardena:** I have some great questions for the witnesses. Mr Mason, you have started to touch on the future trade policy. Could you set out what sugar trade policy Tate & Lyle would like this Government to pursue post-Brexit?

Gerald Mason: No problem. If the British Government want to keep the EU's policy of having a low sugar price in the marketplace for shoppers, we need better access and more choice over where we buy our raw sugar from. There are suppliers out there that can supply us competitively. There are suppliers out there that can supply us with the quality of sugar that we want. There are suppliers out there that can meet the increasing ethical and environmental standards that we and our customers want to meet. So we would like the British market to open up the sugar market compared to what the EU has done. There are various ways it could do that. I could write to the Committee with different options, if that is helpful.

We would also like to see the British Government keep the market open for these Commonwealth countries. Although they are choosing not to sell here now—they are choosing to sell to other markets such as China, or increasingly to keep sugar in their own markets—we still think they should have the right to sell here. So the second bit we would like to see is the Government giving legal certainty to these Commonwealth suppliers quickly, now that the agreement they seemed to have reached with the EU allows them to sign new trade deals before the end of the transitional period, even if we can't implement them.

Q177 **Chair:** Why wouldn't those countries have the right to sell here?

Gerald Mason: Their right to sell at the moment is governed by the economic partnership agreement that they have with the EU. Over the transitional period up to 2020, it looks like we will mirror that as the UK. But after that, that agreement goes. That agreement is with the EU, not the UK. The Government have assured these countries that they will continue to have access, but that is no legal certainty. We would like to see the Government and these countries—with the EU's blessing—agree to at least a transitional period after 2020, and for the UK to agree to continue to replicate the arrangements that are currently governed by the

EU through the economic partnership agreement. That is a really solid, sensible step that they could take now.

Q178 Mr Jayawardena: Thank you. That written evidence would be very helpful indeed, so I encourage you to submit it. Can I go further? Tate & Lyle has lobbied for the abolition of certain tariffs. What consumer benefits would you see in terms of price, if we abolish tariffs and indeed increase your choice and range of import markets?

Gerald Mason: Our view is that it is really important that in the UK there are at least two competitive, thriving producers of sugar. Otherwise, you get into a monopolistic position, with all of the consumer harm that that entails. If we just copy and paste Europe's tariff system, where there are tariffs of around 150% for most of the sugar that can come in, then clearly there is a huge upward potential for sugar prices to rise if it is not managed correctly. Our view is that creating an environment where we have more choice, and where we are able to compete in a lower-price marketplace by having access to competitive suppliers, means that the consumers benefit by continuing competition. But we shouldn't forget that they will also benefit through innovation. Companies like ours only innovate if we are put in a competitive environment. Although we have declined production in London by over a half since 2010, we have actually tripled the number of sugar and syrup products we produce, because that competitive environment has forced us to innovate. So of course it's about price. Everybody knows that, but I really strongly believe, as well, it is about innovation for consumers. Without that competitive marketplace you don't get it.

Q179 Mr Jayawardena: On that point, Mr Kenward, I think you have said in the past that leaving the EU offers an exciting opportunity for British businesses like British Sugar. Given those benefits that we have heard from Mr Mason, in terms of reducing tariffs for consumers, is AB Sugar in support of that as well?

Paul Kenward: We are very much in support of rolling over the EPAs and the EBA, and continuing to have preference.

Q180 Mr Jayawardena: What about the tariff point?

Paul Kenward: On the tariff point, we see two areas there: there will be the tariff arrangements between the UK and the EU 27 when we leave. We export significant amounts of sugar to Europe. If tariffs are applied on our goods on the way into the EU 27, all we would ask Government to do is to apply reciprocal tariffs in the other direction, which seems fair and proportionate; and we would expect Government to negotiate those away over time, as we move to a free trade agreement.

Outside the European Union there are three reasons why we would counsel Government to tread with care as it changes the tariff system. One is that the world market is a distorted market. It is a market where many countries subsidise their sugar. This is something on which we commissioned a report, with an unrestricted educational grant, from Flint and ECIPE to look at those levels of subsidisation, because we have not



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seen anything published on exactly where it is. You can see, using those figures, that that independent report suggested that the UK has a subsidisation rate of about 10%, Brazil 27% and the US 66%. If you do not have some form of adjustment for that, through a tariff system, you create unfair outcomes and you do not put people on an equal footing. That is the first point.

The second point is that if you want preferential trade agreements to benefit countries who are developing, you need to have bite with that. If you don't, they will be forced to compete with subsidised industries in Thailand, Brazil, India and others. We think that that is something that the Government may well choose to do, but it should do it with its eyes open.

The third thing is that for Liam Fox and his team to have negotiating capital, rather than unilaterally giving up those things we would imagine that the Government would trade them for access for British goods. Again, that reciprocity works for me. I would love to be able to export my sugar. So according to the LMC, which is an institution that ranks global sugar producers by their efficiency, we are the No. 2 most efficient producer in the world. I would love to have better access to Canada, to the USA and to China, all of which are very closed markets. You could trade access for British sugar and our British industry to those markets, in return for greater access back. As long as there is that equal footing, we are happy to compete.

Q181 **Mr Jayawardena:** But you would be open to reducing tariffs on importing.

Paul Kenward: One of the outcomes from the Flint ECIPE report was a suggested level of tariff around the United Kingdom, which would correct, to a great measure, for those subsidisation levels. That was about €110 per tonne.

Q182 **Mr Jayawardena:** Isn't cheap but perfectly good quality sugar good for consumers, though?

Paul Kenward: Actually, I agree with Gerald. I think price is certainly one thing. If you look at the price of bagged retail sugar, which is what you will see in the stores, over the last 10 years, as the world sugar price has gone from €300 to €700 and back down again, consumers have consistently got a very good price because supermarkets use bagged sugar as a key value indicator. They like to use it to signal that they are very good value. So actually consumers get a very good price. Price they already have: I think they also should look for quality. They increasingly look for sustainability credentials, whether that is fair trade from a country like Swaziland or whether it is home grown: actually, we do have 3,500 growers across the UK and there are many consumers that prefer to buy British. We have that option. So there are a lot of things that consumers would choose.

Q183 **Mr Jayawardena:** My last question, the Chairman will be delighted to hear, is about balancing global Britain and our ability to import, going forward, rather than always having to grow produce domestically. In terms of the way you have talked about how you have improved the



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productivity of land and the productivity of farmers growing beet, is beet production a good use of land compared to other crops, given the ability to import also?

Paul Kenward: Absolutely. Our production capacity in a given year is about 1.25 million tonnes of sugar, and the demand in the UK is about 2 million, so I know the UK is going to need to have imports to balance that market. I am absolutely neutral about where that comes from. I have enormous respect for Gerald and his business. I also have great respect for the white sugar producers in France and Germany. Is beet a good crop? Absolutely. It is a key member of the rotation. If you imagine that you are a farmer with 100 acres of land—you may remember this from school, or you may be from a rural area—you would divide that land up into, say, four 25-acre patches. Beet is a key part of that field. It helps with disease prevention. It helps to control pests. It adds to and supports nutrient balances in the soil. I think farmers would tell you that they value beet as a crop for the gross margin it delivers to the farm, but also for those rotational benefits. I absolutely think it is a valuable part of the rotation.

Q184 **Chair:** Thank you. Ben Richardson, do you have any reflections on what you have heard from the other two witnesses?

Dr Richardson: I would support the consensus on providing security where possible to existing preferential suppliers. I would also be cautious about extending access to the UK market, if it does adopt an independent trade policy, to some of the lowest-cost producers in the world. I may differ in my reasons; I think there are actually compelling public health and rural development reasons to support a reduction in the supply of sugar, and an increase in the price, with the intention of passing that through to the companies that use sugar in their products. That is how the vast majority of sugar is consumed. It only accounts for a small proportion of the final price, but I think it is an important signal on public health grounds that companies need to begin transitioning away from sugar for dietary reasons. That is in line with the Government's own targets on sugar reduction.

The rural development rationale applies to both domestic and international suppliers of sugar, who would benefit from increased crop prices, and, ideally, increased wages too. How you do that needs to be explored. I think there are options with tariffs, quotas, as were previously used, and possibly levies on sugar as well. It is not something I have looked into in detail, but I think options are available.

May I just add two very quick things? The broader recommendation that I would make here is twofold. First, in UK trade policy there ought to be provisions to uphold fundamental labour rights and land rights. I draw on my experience here in looking at sugar production. I gave the example of Cambodia earlier; when it increased sugar production to sell into the EU, there were gross violations of land rights, and there have been subsequent human rights investigations by the National Human Rights Commission in



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Thailand into that situation. Trade can be good, but it needs to be managed and governed appropriately.

Secondly, I think there needs to be timely impact assessment linked to meaningful assistance for producers who are adversely affected by any reforms. It is difficult for me personally to advocate for a particular policy position, because inevitably some countries benefit and some lose out, and I feel uncomfortable taking that position. At the very least, there ought to be a recognition that people will be affected. Drawing again on my research on the sugar industry, there are lots of lessons to learn about how those people could be better supported as they inevitably lose their livelihoods.

Chair: There are winners and losers.

Q185 **Catherine West:** Just as a follow-up to that, we did a Canada-US trip, and the Canadian Parliament is looking at whether it should put labour rights and other things into free trade negotiations. Obviously, labour has always been in the NAFTA negotiations. The Democrats talked quite a lot about that, and what people stand to lose through Mr Trump's protectionism. Do you have a practical opinion on that? I think we would all agree that in a perfect world you would put all your values into every single thing that you do as a Government, but how practical is putting some of those provisions into bilaterals or other arrangements?

Dr Richardson: The arrangement that I would recommend be considered is the EU's GSP-plus, which offers duty-free, quota-free access, so it has a similar market access aspect to it, but it has a series of requirements around the ratification and effective implementation of key international legal conventions related to human rights, the environment and labour rights. It also has a series of monitoring mechanisms to help countries to implement those properly within their countries.

The EU is very cautious about adopting a sanctions-based approach, which is something typically associated with the US. I would argue—again, based on the research I have done to look at the effects of GSP-plus in Pakistan, for example—that the market power that importers such as the EU or, in this case, the UK are able to leverage can be used to good effect.

Q186 **Faisal Rashid:** My question is to the whole panel. We have mentioned Brazil, Thailand and India. Obviously, these are very big producers of sugar cane in the world. It is argued generally that the industry is very heavily subsidised. On what basis is that argued?

Paul Kenward: We recognised that, despite that being generally well known, there was not a great evidence base, so we commissioned a piece of research from Flint and ECIPE, which we can provide to the Committee. It was an unrestricted grant, so the work was based on academic research on models that are used by the WTO and by the various Governments as they model the effects of free trade agreements.

They saw different levels of subsidisation from different countries, and it comes from a range of things: from direct export subsidies through to, in



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Brazil, significant support for an ethanol industry. In Brazil, sugar cane can flow through a sugar mill into sucrose for sugar as food—a lot of it gets exported because they produce a lot—or go for ethanol. It is hard to disaggregate those two things.

In India, it is a very political crop, as it is across a lot of the world. The Indian Government want to try to maximise the revenues of cane farmers: often, they are subsistence farmers and they need to have a price that will support their families. They also want to reduce the price of sugar for Indian consumers, for whom it is a key staple. Again, what can happen is that the excess production, which has been supported, can end up being exported.

So there is a range of things. If I could send you the Flint-ECIPE report—that has been published; it is an academic research paper—that might help.

Q187 Faisal Rashid: Does that subsidisation just affect the price in the local market?

Paul Kenward: They focused, in their work, on the effects of subsidisation on export volumes.

Gerald Mason: I have quite a different view from Paul, you won't be surprised to hear—this is where you might see some blood sport!

This is a common argument that has been used in Europe for many years by the European beet sugar producers to protect themselves—to keep the tariff wall around them and keep the prices high. Their argument is that everything produced outside Europe is awful—it is produced either to terrible standards or with massive subsidies—and everything produced inside the EU is fantastic: it has no direct subsidy and is produced to the highest standards. The challenge that we have always had as a business is that when you go to Europe and argue for a parallel opening for cane sugar, as the beet sugar producers were deregulated, you always face that argument. Politicians and regulators in Brussels just accept the argument without any real scrutiny. In Europe, there are 19 countries that produce beet sugar and only really two or three with cane refineries, so there is no reason for them to even challenge it.

The argument that Paul puts forward is the one that we have always had a challenge with. Our view is that it should not be for politicians and regulators to accept evidence from me or from Paul and take that at face value. There is now an opportunity for the British Government themselves to look at it properly—something that has never been done in Europe—and to try to understand what really is the truth.

Our view is that in every country around the world where sugar or any other agricultural crop is produced, there is some sort of interference by the Government—even in the EU and the UK—and that it is quite hard to analyse and compare the two, because there are lots of different types of measures. It should not be the case that you have a blanket ban and a high tariff just in case there is a level of support in another country. It

should be for somebody sensible, technically competent and independent to assess that.

A good example of a country that we can't buy from today and which wasn't in your list is Australia. Australia is the second or third largest exporter of cane sugar in the world, depending on the year, and it is widely recognised that virtually no Government support is given to the industry there; there is virtually no tariff protection.

Even if you accept the argument, which I don't think is technically correct, that everything outside the EU is bad, there are still examples of sugar suppliers in the world that we would like to buy from, such as the family farmers that grow sugar cane up in Queensland in Australia, and that we can't today because if we want to, generally speaking we face a tariff of 150%.

It is a really good question, and you won't come across it just in relation to sugar in trade policy; it will be lots of the agricultural crops you have to look at. It is up to the Government and Parliament to interrogate it when people make these claims that everything outside the EU is bad and everything inside is good.

Q188 Faisal Rashid: I totally agree that there has to be proper scrutiny. Do you agree with the report that Paul Kenward referred to?

Gerald Mason: It is hard to know, because I can't see any of the workings. I am not going to criticise the report—this is factually how I see it. It describes different policy measures in different countries, and then it makes a giant leap and says, "This means that that is equivalent to a tariff of Y." I can't see all of that really interesting stuff about which policies they have applied which value of protection and intent to constrain to. I can't tell you whether I agree with the report or not, because the really important bit isn't there.

Paul Kenward: We believe that the report has some uncomfortable truths for us. I agree with Gerald—at the risk of not having a blood sport. It has Australia's subsidisation at 4%, so that supports Gerald's argument, but it also had the US at 66%, Brazil at 27%, the EU at 18% and the UK at 10%, but declining to 2% if Mr Gove follows through on the statements he has made about restructuring domestic agriculture policy.

I am happy to supply the report—it is published, and people can interrogate the logic behind it. We have worked hard to engage with the Government. We have talked to people in the Treasury, DFID and DEFRA, and given them access to the economist who wrote the report so they can interrogate the datasets. There is nothing for us to hide. It is not our report; it is unrestricted.

Faisal Rashid: That would definitely be useful.

Dr Richardson: It is impossible to disentangle any particular economic activity from the state on an objective basis. That is why this debate happens again and again throughout the global sugar industry. My



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perspective is not to start from the point of view of whether a particular policy is distorting trade and evaluate on that basis; rather, I ask whether these policies are in support of defensible public goals, and what kind of people they are helping.

For example, if you look at Brazil in closer detail, you will perhaps find that the support for ethanol is useful, in so far as it reduces oil dependency, but the benefits do not really accrue to the poorest people who work in the industry. That would be my way of going about evaluating whether trade agreements should support countries that have those kinds of policy arrangements. I would not try to make it a very technical exercise about the effective subsidy level, because I don't believe that can be achieved.

Q189 Chair: If I heard you correctly, Dr Richardson, you said it is hard to disentangle almost any activities from the state. Do you mean that that is because of the public goods the state provides, such as infrastructure, education, safety, a police force—all that sort of stuff?

Dr Richardson: Exactly. Sugar companies in poorer parts of the world have to provide healthcare and take on that policy precisely because the state doesn't do it. The sugar company in Guyana, where I was recently, has a huge responsibility for managing the watershed and preventing Georgetown, the capital, from being flooded. On a commercial basis, they would prefer not to have to do that, but if they don't do it, the state won't.

That is just one of many examples. You gave some other fantastic ones. Credit provision is a huge issue as well. There is also regulatory policy on land and labour, for example. In the UK there is a minimum wage, and in other countries, while there might be minimum wages, they are completely below the cost of living. One can argue that that ultimately affects the price of labour, the cost of production and your competitiveness to export.

That is why I argue that it is difficult to draw a line around those policies that distort trade and those that do not. The WTO has its own reasoning on that, but in the Doha round, one of the big talking points has been that the current differentiation between trade-distorting and non-trade-distorting policies is not fit for purpose. The debate goes on.

Q190 Julia Lopez: I am not going to ask my question, because I think it goes over old ground. Given all that we have heard in this discussion, what would you suggest the policy objectives of the Department for International Trade should be as it goes to make agreements with developing nations and other nations that affect your industry? Given your interactions with it, do you have confidence that it has the expertise within the Department to formulate that kind of policy?

Gerald Mason: There are two stages to the first bit of the question. The first thing the Department for International Trade could start working on now is giving legal certainty to the suppliers in the Commonwealth and the other current preferential suppliers. As a business, we are looking at having to buy raw sugar and make commitments to countries such as Guyana, Belize, Jamaica and Fiji very soon, for 2020 and beyond, to buy



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their raw material. At the moment, we don't know whether we will be able to buy it tariff free, or with a tariff of 150%, and they don't know whether they will be able to sell it tariff free or with a tariff of 150%. It is wonderful that the Government assures people that that will continue, but we have an opportunity, now that we have made an agreement with Europe where we can sign trade agreements before the end of 2020, to go ahead and do that, and those countries should be the places where we start.

The second thing it should do is to start to prepare for negotiations with some significant sugar-producing countries. If you look at the countries that the Government is focusing on for trade—countries such as Australia and the MERCOSUR countries, which include Brazil—there will be some significant sugar producers in there. It is impossible to agree a free trade agreement with those sorts of countries without somehow opening up the UK sugar market to their sugar. It is going to be one of their main offensive interests. They should start planning how they are going to do that and thinking about the methodology and mechanism to do it, and all the pros and cons of what we have talked about today.

In terms of expertise and appetite, you would expect that we would engage a lot with the Department for International Trade and other Departments, and our experience is that over the last year or year and a half there has been a real sense of energy and a growing sense of experience. There is a real willingness to listen, and most importantly, unlike what we have seen in Europe for the last few years, when we meet with the Department for International Trade they do not just see it through their lens. On their own initiative, they will invite in people from the other Government Departments that matter for these policies—people such as DEFRA, DIT and the Treasury. Of course it is hard to start from almost nowhere, but our experience is that they are doing a good job and they know what they have to do.

Paul Kenward: I wholly support Gerald's points on EPA and EBA being rolled over, and getting that certainty as quickly as possible.

Q191 **Julia Lopez:** On that note, we have heard from other panellists about some of the flaws of EPAs and how a lot of developing countries find them unhelpful. Taking that into account, would you seek to upgrade the EPAs fairly soon to something better?

Gerald Mason: I think time is the issue. My feeling is that it will be difficult to make meaningful changes to EPAs in the next 12 to 18 months. What we need is literally a sheet of A4 where the UK Government and the EPA countries agree that we will continue to apply things as they are today for a period, and that over that period we will also look to renegotiate our own EPAs. If there are issues with how they exist today, that is the period when they are most likely to be addressed, but speed is of the essence now.

As an important buyer of products from these countries, we do not have certainty over the tariff rate beyond 2020. As a supplier, there are half a million people involved in the sugar industry in one way or the other in the



Caribbean. They do not have certainty about whether they can sell their sugar to us tariff free beyond 2020 either. We are reasonably confident they will be able to, but the problem I have is that when I go to sign a contract and the lawyers look at it, the first thing the lawyers will say is, "It's nice to have reasonably high levels of confidence, but there's a big cloud overhanging you, because if that's not true, there's a catastrophic tariff to pay for somebody."

Paul Kenward: Again, I agree with Gerald. It is going to be difficult enough to roll over EPAs. If I were Government, I would try to roll over as much as I can simply as is, and then build later—that is for us to ask the DIT, again with EU27 reciprocity. With the rest of the world we are a major exporter. We are not a high-cost, inefficient producer. We are one of the world's leading producers of sugar, so we would like to be able to export to a number of countries. We outlined some earlier—Russia, China, America and Canada. There are markets in the middle east that I would love to be able to get access to. We also recognise that we produce 1.25 million tonnes of sugar, most of which gets exported. It is a hugely competitive market. Last year, we sold less than a million tonnes in the UK because of the intense competition, so I would like to have access to export markets, and I understand that customers want to import sugar, either from France or Germany or from less developed countries—that helps development outcomes—or from big agro-economies like Australia. I was at the IPT last night and I said—I still think this—that I don't envy the Department for International Trade, or politicians in general. They have to balance the interests of consumers in the UK and the manufacturers of food products, 80% or 90% of which contain sugar. You have to balance the interests of growers in UK but also those of growers overseas, and all of those development outcomes. Balancing all of those things is a challenge.

Q192 **Catherine West:** At the risk of being a bit repetitive, but for the record, Mr Kenward, you told *The Times* in January that you were not keen on the Government scrapping sugar tariffs and relying only on targeted anti-dumping duties instead. Can you explain why? In particular, you said that sugar tariffs do not need to be as high as they are in the EU. How high should they be, and why?

Paul Kenward: Yes, I remember saying those things.

Chair: That is helpful.

Paul Kenward: The level of tariff at the moment is around the WTO tariff. So, 2.7 million tonnes is duty-free, under EPA and EBA and various other agreements. There is a substantial portion that is allowed at €98 per tonne. Then there is €339 a tonne for raws, which is a WTO tariff, and €419 per tonne for whites. I would suggest that €98 is a good level to adjust for the subsidisation that I referred to earlier; €339 and €419 are too high. Actually, we don't disagree on every point. I think that if Government wanted to reduce those tariffs over time, that would be an entirely reasonable thing to do.



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How does the Government achieve the policy aims I talked about? We continue to believe that having a bound tariff set at a level that is appropriate is by far the easiest way to adjust for distortions and to allow for preference. If you don't have tariffs that are set at a meaningful level, you don't adjust for subsidisation and you don't allow preference. If you step away from that and try to have a body set up with economists who would argue and be lobbied by lots of different people as currencies move and different support systems come in and go, I think you will be tied up in knots and by the time something has happened, it will take months for Government to react—not this Government, but any Government. We think tariffs are a cleaner, simpler method.

Gerald Mason: Could I have a crack at that question as well? You won't be surprised that our view is quite different. Our view is that any tariff is a problem for our business because it changes the playing field. It increases our costs and makes us less competitive. By arguing that a tariff level of any kind should be set around the UK market, what you are really saying is that you want to put the price of sugar up in the UK by the equivalent amount of the tariff. That is what a tariff does. If there is not enough domestic production and you need to import and there is a tariff, the price level goes up and it is consumers who pay for that.

The other bit to the answer is that it is not necessarily the case that that higher price will go back to the Commonwealth countries if sugar is imported from those, because unless you have some domestic policy measure that also restricts production in the UK as those prices rise, there is no ability for those countries to come into the market. All that does is act as a signal for the farmers and for the single monopoly producer to produce more. I think it is really important that Government scrutinises this idea of a tariff. A tariff is an attractive idea in principle, to offset some mythical level of support around the world. In practice, all it does, in a market where there is not enough local production, is put the price up by the equivalent; and it does not even pass that value back to the Commonwealth producers, unless there is some parallel restriction on those domestic producers that leaves space in the market for them.

Paul Kenward: Gerald has used the word "monopoly" twice so far. We have a less-than-50% share in the UK. We are in a single market within Europe where we have less than 5%. We are on no definition a monopoly. For the record, I would just like to say that.

Q193 **Mr Jayawardena:** Dr Richardson, I wonder if I can return momentarily to the consumer. Can you outline what, if anything, British consumers would gain from the post-Brexit approach that you are proposing? Because I have to say that the Ribena I drink today with my daughters is awful compared with what I used to drink—the lack of sugar in it. There was a Committee meeting yesterday. They have taken sugar out of it and they have taken all the flavour out of it. It is a disgrace.

Dr Richardson: You might not be saying that 20 years down the line when you are still fit and healthy, perhaps, but we will see.

Mr Jayawardena: You are too kind.

Dr Richardson: I prefer to think of people in the round. Consumers bring forward an understanding of people as being price sensitive and wanting value for money. They may not appreciate having to pay slightly more. The proposal I make is marginal. I am not even sure it would make an impact on the final price. The research I have done suggests that the cost of sugar in the final price of sugar-containing foods and drinks is between 2% and 5%, perhaps. It is very small. Most money, I assume, goes on marketing and slotting fees and all the rest. Thinking of people in the round, we act as consumers, but we are also health-conscious eaters and ethically minded citizens. There are other rationales to appeal to when deciding what kind of policy we want with an eye on the distributional and developmental benefits of that.

Mr Jayawardena: I am not sure that that persuades me on the quality of Ribena today, though.

Chair: You are always free to get a spoonful of sugar and add it.

Gerald Mason: Can I come in on that? It is true: the Government has a big decision to make before it even thinks about trade. It has to decide what it wants the sugar market in the UK to look like in the future. That decision is no longer just about farmers, Paul's workers and my workers in east London. It includes the health debate now.

In theory, the UK could go back in time and have a high sugar policy, where it limits supply to those Commonwealth countries, places limits on Paul's farmers, manages the market with some old-fashioned mechanisms and keeps the price really high. That is a policy choice that is in play, in my view, and it is a policy choice that we would not have a problem with. If the sugar price is high, we can afford to pay good prices to those Commonwealth countries and be limited to them.

Likewise, it is inheriting a low sugar price from Europe at the moment, and it has to decide what to do about that. If it has a low sugar price policy that it wants to continue—a competitive one where shoppers benefit—it has to do something for people like us to enable us to buy from competitors and raw material suppliers that will allow us to compete, and it has to do something about the Commonwealth countries that choose not to send their sugar into that type of market.

There are things it can do for those countries. We have a mill in Belize that we purchased five years ago. We will have spent nearly US \$100 million on it by the end of our transformation programme in two years' time. We have managed to take it from a mill that was in decline where production was falling, to one where we have grown production by 50%. We are adding value and moving up the value chain by turning it into a mill that can produce brown sugars for its regional market, rather than selling bulk raw sugar to the EU.



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It all comes back to that basic policy choice. Before we even think about the value of access to those Commonwealth countries and how we should apply tariffs and domestic quotas, the Government has to decide whether it wants a high sugar price or a low sugar price. That is something that is central to all these questions. Everything else flows from that.

Q194 Emma Little Pengelly: I know time is quite tight, but I want to pick up on an issue that you referenced earlier. You mentioned the cost of exporting from the rest of the world under WTO rules, and you brought up some examples of people who export and import in terms of those rules. At the moment, you are presumably importing from countries that have significant regulatory divergence with the European Union. Under WTO, you have referenced the relatively small cost, but in terms of logistics what are the requirements on you in terms of the European Union and manually what types of checks are there? Is that a difficult or lengthy process? Clearly there is concern at the moment about what that looks like as we move into potentially exporting into the European Union, as opposed to receiving as part of the European Union.

Gerald Mason: You are asking what the journey is like. If I focus on containers, because that is probably most representative of what most businesses would use, last year—this won't be the exact number—we brought in nearly 1,100 containers full of sugar to the EU through ports in the UK. Those have to go through the full customs procedure. That starts by us appointing an agent in each of these ports to act on our behalf. We tell that agent when a container is coming, and we send them the documentation they need. They will customs clear the container for us and deliver it on to our factory. The cost of that to us is relatively low. It is around 0.06% of the value of the sugar in those containers. The procedure is relatively uncomplicated. You have to set it up, if you don't have one already, but the procedure is just another business procedure. In terms of checks—the numbers are coming back to me: I think it was exactly 1,073 containers that we had—we had 10 containers stopped and checked. That is on foodstuffs.

Those checks generally fall into three categories. You can have a customs check for the seal; there is a plastic seal on each container with a serial number to make sure the cargo is not tampered with. That is a very easy check to do, and it does not take very long. You can have your container x-rayed as well. That is another check that they will do. They don't open the container, but—in the same way as when you go to an airport or come into this place, you go through a little x-ray machine—they have a giant x-ray machine they put containers through. In the most extreme circumstance, I think we had three of the 1,073 containers opened last year, where the customs officer wants to check what is inside it. Typically, our checks are more than normal, because we are bringing sugar from countries that are seen as a high customs risk—places such as central America and the Caribbean—where sometimes people use these trade flows to carry drugs through the system. Our experience is that around 1% of our container inflows were stopped and checked.

Q195 Emma Little Pengelly: Is that 0.1%?



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Gerald Mason: It was 10 of 1,073. I am under pressure, and my maths is not the best. So it's 10 of 1,073. There is a defined process for doing that, and an upfront cost that everybody knows. It adds £50 to £100 for the container, depending on the type of check, and it is just something that we manage and accept. Customs authorities generally take a sensible, risk-based approach to it.

Chair: I think we have come to the end of our questions. Thank you all very much for your time this morning. The varied answers were very useful and interesting.