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Written evidence submission from Tate & Lyle Sugars (AUS0042)

29 April 2022

Dear Angus, Dear International Trade Committee members,

Re: UK-Australia FTA and sugar

Firstly, thank-you for giving us the opportunity to give evidence in person earlier this week. It really was lovely to be back in front of the committee in person, and not have to watch you all through a zoom screen. Long may that last.

I know a lot of your focus is on whether the FTA is “fair” in terms of standards, crop protection products, subsidies and carbon. I hope that the little evidence I was able to offer helped the committee, at least as regards to the situation with sugar.

Secondly, please find attached the supplementary evidence I promised regarding preference erosion and traditional sugar suppliers to the UK and EU. This issue is regularly raised with us. Sadly, it is more often than not propagated by beet sugar producers claiming to have the best interests of these cane sugar industries at heart. Our contention, of course, is that they don’t. Instead, they use this argument to keep protection at the border for their own benefit. I hope our extra evidence helps the Committee consider this important issue.

Finally, I was struck by the general feeling from the Committee that you were under time pressure to finish your report, and that this was unfair. From my perspective, as a future user of the FTA, can I just register that I see no reason to rush this part of the process. If it takes a few weeks or a month or two extra to allow everybody the time they need to look at these issues properly, then so be it.

The last thing we would want is for the FTA to have some sort of controversy hanging over it as people felt they hadn’t had proper time to consider it. I’m not sure what else I can do to help on this, but felt it important to register that we, as an advocate of the agreement, don’t want to see these things introduced with bad feeling.

If there is anything else we can do to support your work, please do be in touch.

Yours sincerely

G. Mason

Gerald Mason

Supplementary evidence from Tate & Lyle Sugars on Preference Erosion following 26 April 2022 oral evidence session

1. The Committee asked two questions about whether the UK-Australia FTA would lead to preference erosion for traditional UK sugar suppliers during the oral hearing on 26 April. We promised to send some supplementary evidence on the issue. This note, together with the attached report from LMC, is that extra evidence which we hope will help inform the Committee.

2. Preference erosion is a term used to describe the erosion of some sort of trade preference a country or region has over others. In the context of traditional cane sugar suppliers to the EU and UK, this trade preference used to take the form of preferential trade access to the UK that gave them a guaranteed market for their sugar, at around three times the world market price.

3. That preference in the UK sugar market today has already been eroded by policy decisions taken int the EU between 2006 to 2017. Over that period, beet sugar production was deregulated, (wiping out both the gap in the EU market for it as beet sugar expanded, and the value of the preference as EU sugar prices fell to the world price level. Today, as a result, UK sugar prices are already at or close to the world price, meaning there is very little value to any developing country market preference[1].

4. Assuming the UK Government wanted to re-instate the value of the preference, it could only do this through a combination of the UK tariff policy combined with domestic sugar policy, in particular a re-introduction of beet sugar quotas. It cannot be achieved through UK tariff policy alone. Higher sugar prices for developing countries could only be achieved if the UK tariff policy was established in combination with re-introducing quota restrictions on UK beet sugar producers, something that the UK Government appears unlikely to propose. This would be necessary, otherwise UK beet sugar production would simply expand as domestic sugar prices were increased by a restrictive tariff policy.

5. We know that the UK Government is extremely concerned about the impact of its sugar policy on developing world producers. So are we. We have a long history of purchasing from these suppliers, and have supported them through programmes like Fairtrade and our extensive in-country technical support programme after the 2006 EU sugar policy reform. For instance, practical support was provided to suppliers on how to protect workers and cane growers at the beginning of the recent COVID-19 outbreak, sharing lessons from the approach we had taken in our UK factories through our business and Fairtrade networks[2]. Indeed, the fact that we have kept our UK sugar refinery operating at a large financial loss in itself is itself a direct financial subsidy from us to the developing country suppliers[3], as we purchased raw sugar from them at prices higher than we could sell refined sugar. It is simply economically illiterate to believe that this can continue in the long-term.

6. This is in sharp contrast to the beet sugar sector, who over many years have sighted the interests of the developing country suppliers simply to advance a restrictive trade policy on sugar in order for beet sugar to gain market share. Developing world sugar producers have generally gone along with this, partnering

[1] For instance, the Mauritius Sugar Syndicate stated in their 2017/18 Annual Report that *"The 2017 crop has probably been one of the worst for the Mauritian sugar industry as regards its sales performance: sales were impacted by the severe fall in the world market price of sugar, compounded with the liberalisation of EU production quotas on 1 October 2017, which completely eroded the traditional preferences that used to be extended to locally produced sugars."*

[2] See, for instance, this blog by the Head of Policy at The Fairtrade Foundation here https://www.n8agrifood.ac.uk/blog-posts/fairtrade-and-the-covid-19-response-lessons-for-business-and-the-food-system/

[3] We estimate our support for developing country raw sugar suppliers has totaled at least €192 million since 2010, including our Fairtrade payments and supporting our ongoing losses at the UK cane refining business. Our extensive technical support programme, plus our ethical and environmental support programme, will add further to the value of that support.

with EU beet sugar producers in this message, because they see little option to do anything other than that.

7. Sadly, we are unaware of anything that the EU or UK beet sugar sector has actually implemented to support developing world suppliers over that time. In fact, beet sugar producers have significantly grown market share in the EU sugar market since quotas ended in 2017 at the expense of the developing world suppliers whose interest they claim they have at heart[4].

8. What isn't sustainable for either us, or the traditional developing country suppliers, is the status quo. Many of these suppliers are high cost, in decline, and cannot meet the high ethical and environmental standards that we and our UK customers expect. This is entirely due to successive reforms of EU sugar policy which has left UK and EU sugar prices at or around world price levels, meaning their preference has already been eroded through EU policy changes. Many of these traditional suppliers have resultingly taken the hard but correct decision to do one or a combination of reducing production, marketing their sugar for sale in their own domestic market instead of exporting to the EU[5], or looking for export markets that are more remunerative than the UK and EU now is. .

9. These issues are explored in detail on a country-by-country basis in a report Tate & Lyle Sugars commissioned from LMC[6], the respected independent sugar economics analyst. The report was submitted to the UK Government earlier in 2020. For ease, it is attached as Annex 2. The report highlights how EPA & EBA suppliers have chosen to reduce their raw sugar export to the EU from a consistent 1.5 million tonnes per year to a much lower 0.5 to 1 million tonnes per annum as a result of the loss of preference as sugar prices fell in the EU. Further to the loss of EPA & EBA supply, it also highlights how cane refiners have lost almost the entire 680,000 tonnes of raw sugar supply through the CXL import quotas as the lower EU sugar prices have made the €98 import tariff attached to them uneconomic. This loss in raw sugar supply to the EU has not been made up by the small extra supply channels opened up through new FTAs that the EU has negotiated.

10. The key point is that many of the traditional developing country raw sugar suppliers are actively choosing not to sell to the EU and the UK unless prices are high. The challenge for us as a cane refiner is that we cannot pay the high price these suppliers need to attract their supply to the UK, whilst at the same time selling refined sugar in the low priced UK and EU market. It is economically illiterate to expect cane refiners to be financially sustainable by purchasing in a policy environment that creates high prices for raw sugar whilst selling in a policy environment that creates low prices for white sugar.

11. Keeping cane refining constrained in its supply base will not mean we are able to pay higher prices to developing country suppliers unless it is matched by the re-introduction of quotas on beet sugar production in the UK and a consequent significant rise in UK sugar prices. This is a policy option, but not

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[4] For instance, the Mauritius Sugar Syndicate ("MSS") stated in their 2017/18 Annual Report that *"As regards the Syndicate's own sugar sales in the EU market, a significant decrease in white sugar supplies was to be anticipated with the advent of the noteworthy increase in EU production, and a number of its regular customers were indeed reluctant to commit to imports. Even those with whom contracts had been negotiated at the start of the campaign kept revising their price offers downwards."* MSS has partnered with EU beet sugar producers at the time to market Mauritian refined sugar on their behalf in the EU. Clearly, EU beet sugar producers had a much-reduced interest in marketing these sugars once their own production capabilities were unleashed by the end of beet quotas in 2017.

[5] Jamaica, for instance, makes no material exports to the EU any longer. Donovan Stanberry, Permanent Secretary for Agriculture, stated to the Jamaican Parliament in 2018 *"We now have to tailor the sugar industry to satisfy the markets that really make money… certainly for the last four or five years, all the sugar we consume in Jamaica are in fact from local production. There was a time when the EU market was so lucrative that we would send all our local production to meet our quota and then we would buy cheap world market sugar for local consumption, that is no longer the case."*

[6] "The Evolution of Preferential Access for Raw Sugar in the EU" LMC, April 2020.

one that we expect will be attractive to the UK Government. Keeping cane refiners constrained will simply mean that they cannot continue to operate at a loss, close, and the end-market for these traditional developing country suppliers is lost forever.

12. We are calling for a more modern and realistic approach to supporting developing country sugar suppliers as our own markets become more sophisticated, competitive and market-driven. An approach that we would be pleased to advance in partnership with the UK Government and developing country suppliers. The approach would support them in adapting to the modern global sugar market, wherever they decide to market their sugar in the future.

13. This approach doesn't have to be focused on large, expensive and risky capital investments in these industries. Instead, it could be focused on supporting these countries achieve the highest ethical and environmental certifications through highly targeted programs like those we are already supporting with NGOs and the Government in Belize on child labour awareness and prevention. We have a huge database of knowledge about where the opportunities are to support these countries in meeting these standards from our 4-step ethical and environmental programme that we have been running for over ten years. Support could also be available to help them build the capacity to market their sugars regionally at a higher value than they can achieve in the EU. It would need to be a long-term programme, taking some years, money and commitment, but through working in partnership with the UK Government and these suppliers it is possible. We would be happy to work with the UK Government and these countries to explore such a programme.

14. Alongside this approach, even with the tariff on raw sugar set to zero, we would continue to purchase for the UK market from these suppliers. This is because Fairtrade sugar can only be sourced from the small grower model found in these developing countries. It is also to ensure that we can continue to produce the wide range of brown sugars and syrups in the UK, as many of the developing world suppliers produce a quality of raw cane sugar that helps us do that, and which is not easily available from the countries like Australia and Brazil. Establishing the raw sugar tariff at zero should be seen as a way in which the UK Government could i) ensure the viability of cane refining in the UK, ii) keep open the UK market for developing country suppliers and, at the same time, iii) create the opportunity for us to work together on helping them meet modern market needs.

Attached: LMC Report

April 2022