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Environment, Food and Rural Affairs Committee

Reform of the EU Sugar Regime

Second Report of Session 2005–06

Volume II

Oral and written evidence

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Environment, Food and Rural Affairs Committee

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Taken before the Environment, Food and Rural Affairs Committee

on Wednesday 19 October 2005

Members present:

Mr Michael Jack, in the Chair

James Duddridge
Patrick Hall
Lynne Jones
Daniel Kawczynski
David Lepper

Mr Dan Rogerson
Sir Peter Soulsby
David Taylor
Mr Shailesh Vara
Mr Roger Williams

Memorandum submitted by Tate & Lyle Sugars, Europe

EXECUTIVE SUMMARY

1. Tate & Lyle’s UK refinery would compete very effectively in a totally deregulated market. It is imperative that any arrangements designed to liberalise the European sugar sector, but at the same time maintain a beet support regime, do not threaten an economically and commercially sustainable business.

2. As the Commission’s proposals stand they would seriously threaten the viability of Tate & Lyle’s UK refinery in East London. This is particularly perverse as it is one of the few sugar businesses in Europe which could compete effectively in a totally deregulated market.

3. The proposals contain a major threat to the viability of the business. Firstly it yields a margin that is significantly worse than would be the case if TALSE were operating in a totally deregulated environment. Secondly the beet processing margin has been reduced by only 44% while the cane refiners’ margin has been reduced by 77%.

4. The refining margin and raw sugar supply, both governed by the regime, are inextricably linked. The proposals are intended to cancel the cross-subsidy arising from the regime’s price support arrangements for beet that would otherwise allow beet processors to compete inequitably for the limited supply of imported sugar for refining. Examination of these provisions and their implementation is underway to ensure that the intention will be delivered in practice.

5. A corrective arrangement is required for the cane refining margin to secure the business and enable it to compete on an equitable basis with EU beet. This is not special pleading to support an otherwise unsustainable business. TALSE’s concern is that the viability of a business, sustainable in a deregulated market unlike most if not all of the EU beet sector, is threatened by the artificial regulatory environment as currently set out in the proposals.

INTRODUCTION

6. Principally, this note will concentrate on answering the specific key points raised in the Committee’s call for evidence. In particular, it will concentrate on exploring the Committee’s request for evidence on “the potential impact of the reforms on UK-based sugar beet processors and cane refiners, and the long-term consequences for their industries”.

7. Tate & Lyle’s UK operation gave evidence in the former Select Committee’s enquiry in 2003–04. Included in that evidence (Ev16 and Ev21) was a background to the business. A short summary of this has been updated and included in this evidence as Appendix I. However, it should be highlighted here that of the original six UK cane refineries, five have been closed and all production concentrated in the one remaining refinery. There is no scope for further rationalisation or concentration of UK refining capacity. The earlier rationalisation was achieved with no EU financial assistance and thus at considerable cost to the company. The human cost and sacrifice was considerable.

THE POTENTIAL IMPACT ON UK-BASED CANE REFINERS, AND THE LONG-TERM CONSEQUENCES FOR THE INDUSTRY

8. The proposals as they stand would seriously threaten the viability of the UK Tate & Lyle refinery operation. This is in no way due to any inefficiency on TALSE’s part. Rather, it is because the proposals create a commercial environment for full-time cane refiners that would be significantly worse than would be the case in a totally deregulated market.
Full-time destination refineries

9. The Tate & Lyle UK refinery is a full-time destination refinery. This means that it is based on a model of moving cane sugar for refining in bulk by ship from the country of production to the region of consumption for final processing into an extensive range of sugar products for the consumer. This is the type of business model that is growing around the world in order to satisfy increasing demand for high quality sugar products in the most cost efficient way.

10. New full-time destination refineries have opened in recent years in Algeria, Canada, Dubai, Indonesia (2), Nigeria, Saudi Arabia and Taiwan. Construction work is ongoing on new refineries in Egypt, Iran and Indonesia (a further 2). Feasibility studies are also being undertaken in a number of other countries. There is no shortage of raw sugar internationally for these refineries.

11. The reason for the international growth in destination refining is threefold. Firstly, sugar for refining is cheaper than white sugar. Secondly, transport costs for sugar for refining are significantly less than those for finished sugar products. Thirdly, modern and sophisticated market requirements are better serviced from a refinery close to market than from a very long supply chain for refined sugar with the ever present risks of supply disruption, quality deterioration and dispatch of product below specification.

12. In a deregulated environment, a full-time destination refinery would be competing against imported finished sugar products. The combination of the three factors above would allow a destination refinery to produce refined product at below the cost of imported refined product. The resulting refining margin would allow the refinery to cover the fixed and variable production costs, as well as allowing for an acceptable return on capital invested in the plant.

13. A destination refinery in a totally deregulated market would also benefit from no restriction on the volume of raw sugar supply available to it. This would allow it to operate at full capacity, and thus drive down its unit refining costs.

14. TALSE is not asking for a fully deregulated regime as this is not currently a policy option. It seeks only to be given the terms to enable it to compete effectively with beet in a market where beet continues to be supported. TALSE is also very sensitive to the requirements of its traditional developing country and least developed country suppliers.

Full-time destination refining in the EU sugar regime

15. Full-time destination refining has always been a small part of the EU sugar sector. It currently accounts for less than 10% of production and consumption. It has never sat easily in a regime designed to support the beet growing and processing sector. UK Cane refining was, in effect, bolted on to the beet driven regime established five years before UK entry to the EU. The guiding principle which has consistently been used by successive UK Governments in policy formulation is to ensure the regime permits equitable terms of competition between the beet and cane sectors.

The Commission proposal—margin

16. The proposals reduce the cane refining margin by significantly more than the beet processors’ margin. Further, the cane refining margin is reduced to considerably less than it would be in a deregulated market. The processing margin for both the cane and beet sectors is a function of the institutional guaranteed raw material purchase and sale prices, as well as other elements, which the sugar regime establishes.

17. From 2009–10 onwards the cane margin is reduced by 77% whilst the beet margin is reduced by 44% (see table 1). This is disproportionate and discriminatory and seriously threaten the viability of TALSE’s business.

Table 1

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<tr>
<td>Reduction in cane refining margin*</td>
<td>−49%</td>
<td>−72%</td>
<td>−74%</td>
<td>−77%</td>
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<tr>
<td>Reduction in beet processing margin*</td>
<td>−24%</td>
<td>−44%</td>
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*compared to current situation
The Commission proposals—raw sugar supply

18. The underlying intention is to cancel the inequitable competition of supply between beet processors and cane refiners for the restricted supply of imported sugar for refining available in the EU. The support measures provided by the beet driven regime to beet processors essentially enable fixed costs to be covered by processing the beet crop. Technical adaptation and a small investment can enable concurrent or off-crop refining of imported sugar in a beet processing plant, therefore permitting a cross-subsidy from the beet regime to be enjoyed.

19. Tate & Lyle welcome the proposal’s intention to cancel inequitable terms of competition for sugar for refining for the base businesses of both operations—processing beet quota in the case of the beet sector and refining imported sugar in the case of the refining sector. For volume above the base businesses the beet processor and cane refiner would compete on equitable terms for sugar for refining. It is essential for the authorities to thoroughly examine and, where necessary, improve the draft to deliver equity of competition for sugar for refining. This work is in hand.

20. Refining, by nature, is a business with a very high proportion of fixed costs. Already, the regime forces the UK refinery to operate at only 85% of capacity by the limitation of the supplies available for refining. It would take only a small reduction in supply, even at an economic refining margin, to seriously threaten the viability of the refinery.

21. The refinery currently operates at only 85% (1.13 million tonnes) of current capacity (1.3 million tonnes) because of the restricted sugar supplies for refining available under the EU sugar regime. With modest adjustments to the plant it could be run at 1.5 million tonnes per annum and unit costs reduced significantly. Margin and volume are, as highlighted earlier, inextricably linked in determining the unit costs and cost efficiency of the operation.

The Extent and Timescale of the Proposed Price Reductions

22. TALSE’s partners, the developing and least developed country suppliers, have strongly and loudly criticised the size of the proposed price cut and the short period for the full application of the cut. They have rightly projected the implications of these cuts for their economies and social cohesion. The Commission has in turn drawn attention to the EU’s need to reduce beet production significantly and very quickly in order to comply with its WTO obligations while at the same time ensuring that the remaining EU beet production is cost efficient and sustainable in the long term.

23. It is essential that EU assistance to the Sugar Protocol countries adversely affected by the outcome of the negotiations is wholly adequate, properly targeted, and efficiently delivered in a timely way to address and counter the country by country implications of the proposed price cuts.

Conclusion

24. The Tate & Lyle UK refinery operation is a business that could compete effectively in a deregulated market. In order to ensure the business is not threatened by partial liberalisation, but with continuing support for beet production and processing, it is essential for the proposals to be tested to ensure that the refining margin and linked raw sugar supply arrangements permit refined sugar produced from imported sugar to compete on equitable terms with refined sugar produced from EU supported beet.

25. The Tate & Lyle UK refining operation is not a business which needs artificial support to correct an inefficiency or sustain a business that would otherwise be uneconomic. Efforts must be intensified to identify the means to ensure that the business is not threatened by partial liberalisation and that it is has the regulatory and market environment to enable it to compete and invest for a long-term future.

APPENDIX I

TALSE UK OPERATION

26. As a result of UK entry to the EU, and the consequent reduction in raw sugar supplies available to UK refineries, TALSE has been forced to close five of its six refineries. The one remaining refinery is at Silvertown in the East of London. It is the world’s largest refinery with a current capacity of 1.3 million tonnes. The refinery is located in the borough of Newham. The Deprivation Index of the Office of the Deputy Prime Minister scores Newham as the 11th (out of 354) most deprived borough in England, and the 4th (out of 11) most deprived borough in London.

27. The refinery operates at only 85% (1.13 million tonnes) of current capacity (1.3 million tonnes) because of the restricted sugar supplies for refining available under the EU sugar regime. In fact, some modest technical improvements could enable the plant to run at 1.5 million tonnes per annum. Due to current supply restrictions this cannot be achieved.
28. The refinery is situated directly on the River Thames and has its own private jetties for importing and exporting. Raw sugar is imported from African, Caribbean and Pacific (ACP), Developing and Least Developed Countries which are signatory to the Sugar Protocol of the Cotonou Agreement, and from the world’s Least Developed Countries (LDCs) under the EU’s “Everything But Arms” (EBA) initiative.

29. The range of countries from which these supplies are drawn is given in Appendix 2. TALSE therefore provides the principal bridge into the EU to enable these suppliers to reach the EU market.

30. The payments TALSE receive under the current CAP sugar regime have been highlighted in recent releases from the Rural Payments Agency (RPA). These payments are not to cushion inefficiencies, or sustain an otherwise uneconomic business. They are payments designed to offset some of the extra costs that Tate & Lyle incur through operating within the sugar regime. Tate & Lyle would be able to compete effectively in a deregulated market without any of these payments. These facts were recognised in the British Governments’ Partial Regulatory Impact Assessment. It states the following:

31. “Because the UK cane refiner must pay ACP suppliers a high guaranteed price, its margin is institutionally fixed but narrow. This makes it artificially dependent upon some £21 million of EU ‘adjustment’ or margin aid, and indirectly upon a further £100 million of export subsidies, which are not, as might be implied by press reports, direct additions to its bottom line. Broadly speaking, the subsidised re-export of refined ACP sugar, represents a transfer from EU taxpayers to Protocol suppliers, with the cane refiner effectively acting as agent.”

APPENDIX II

SUPPLYING NATIONS TO THE EUROPEAN UNION INCLUDING FRENCH DEPARTEMENTS D’OUTRE MER (DOM)

Bangladesh
Barbados
Belize
Brazil
Burkina Faso
Congo DR
Congo PR
Cote D’Ivoire
Cuba
Fiji
Guyana
Guadeloupe (DOM)
India
Jamaica
Kenya
Madagascar
Malawi
Mauritius
Mozambique
Nepal
Reunion (DOM)
St Kitts (production now ceased)
Sudan
Swaziland
Tanzania
Trinidad
Zambia
Zimbabwe

NB—The number of countries may increase as more least developed countries start to supply under the Everything But Arms Initiative.

Tate & Lyle Sugars, Europe

September 2005
Witnesses: Mr Mark White, Chief Executive and Ms Patricia Jamieson, Director, Raw Sugar Supply and EU Affairs, Tate & Lyle Sugars, Europe (TALSE), examined.

Q1 Chairman: Good afternoon ladies and gentlemen. I am glad to see that there is such enormous interest in the reform of the European Sugar Regime that it is almost standing room only. Everybody is very welcome to this first public evidence session of our inquiry into the proposed reforms of the Common Agricultural Policy Sugar Regime. Our first witnesses come from Tate & Lyle Sugars, Europe. Some things never change, so I am delighted to welcome back again Patricia Jamieson before the Committee, the Director of Raw Sugar Supply and EU Affairs and Mr Mark White, the company’s Chief Executive. You are both very welcome. I remember some years ago, when I had a ministerial incarnation, having the pleasure of visiting the Silvertown refinery and learning for the first time that the sugar you deal with arrives as brown, then becomes white, then becomes brown again. At least I have remembered something about the process you are involved in. Cane sugar is certainly affected by the proposals to change the regime, but let me ask you at the outset whether you are, generally speaking, content with the proposals the Commission have come forward with to reform the sugar regime. If you had the proverbial clean piece of paper, would you have done it this way?

Mr White: The answer is no, we would not and we are not content. We do support the need for reform. This reform is trying to liberalise the market whilst supporting a beet regime. It has severe influences on the cane refining sector right across Europe and the cane refining sector is a sector which could compete effectively in a totally deregulated market. If you like, on the journey to deregulation this proposal actually hits the refiners and there are two key issues. The first issue is on supply. We need a base quantity to keep our refineries going and which was reduced by 77%. The refineries in Europe currently operate at about 70% capacity, so we need to ensure that we keep our current supplies of raw sugar. I think it is the Commission’s intention to do that, but there are beet processors across Europe effectively trying to take our raw sugar away. We are a high fixed cost industry and if we lost our supply, then we would soon go out of business. The second major issue for us is margin. The cane refining sector is more efficient than the beet processing sector. We start with a margin which is lower than the beet processors, but this proposal actually reduces the beet processors’ margin by 44%. The cane refining margin, which is already lower, is reduced by 77%. What this means is that an efficient beet processor will have a margin of £180 per tonne: if you are an efficient beet processor you can cover your costs, make a profit and make an acceptable return on your assets and that is £180 per tonne. The cane refining margin is moving to £44.

Q2 Chairman: Could you just explain, for the benefit of the Committee, how this margin is calculated? From the other odd things I remember, you get paid for doing your job in a different way than the beet producers do. Perhaps you had better just explain to the Committee how you get paid for what you do.

Mr White: The way we calculate our margin is the price at which we sell our white sugar less the gentlemen. I am glad to see that there is such enormous interest in the reform of the European institutional price we have to pay for our sugar—in our case raw cane sugar—and that is the difference. The £44 we are going to be left with does not even cover our total cost for refining.

Q3 Chairman: So if the cost of your raw material is coming down, which is one of the central planks of this proposal, why is your margin not going up?

Mr White: The raw sugar price is coming down but the white sugar price is coming down faster. It is the difference between the white and the raw, which is our margin, which is important for us. We cannot compete against the beet processor who has a margin of £180 and ours is only £44.

Q4 Chairman: Just tell me in terms of the structure of the sugar regime why it works out like that in a market where market access is supposed to be being improved? Am I not right that one of the things you are looking at is the possibility of getting more sugar into your refinery? At the outset it looked as though this might be quite good news for you.

Mr White: Maybe I could explain in a totally deregulated market where you want to go when you want totally free competition. A destination refinery, which is what we are, would expect a margin between £100 and £110 to operate with. We operate refineries in Canada, in Toronto, a joint venture in Saudi Arabia, we are building one in Egypt and that is the margin you would expect. When you get to the most competitive situation, you would expect that sort of margin. So the proposals at £44 are flawed. The only thing we can think of is that the cane refining sector was really bolted onto the beet sugar regime when the UK acceded to the European Union. The sugar reform is a very complex issue and there is so much attention to the beet sector that actually cane refining gets left and sometimes the analysis on the cane refining sector is not as good as it should be. As far as market access goes, in the first three years the amount of raw sugar which comes into the market stays exactly the same as it is now at 1.7 million tonnes. That is going to the six refineries within Europe. Then, from 2009, there is extra access from the Least Developed Countries (LDCs). Our argument is that we need this base quantity of sugar like the sugar processors have their base quantity, their quota of beet sugar, so we can really compete with them effectively. We think anybody should be able to compete for any of the new sugar which then comes in above the base quantities to produce more white sugar from LDC origins.

Q5 Chairman: So would that correct the problem you are facing?

Mr White: What is happening is that if we have a base quantity, if you look at the beet processors they have a beet quota, which is their base quantity, so they can cover all their fixed costs and make a profit. They have the opportunity to buy an increase in their quota. We are saying that we need a base
quantity and that if we do not have a base quantity, basically the beet producers can use the profit they earn from their base quantity as a cross-subsidy to go and purchase our “raws”. Once they are making a large profit on their beet, they can then go and pay a higher premium and actually take the “raws” away from us.

Q6 Chairman: Can I assume from what you have said that unless this thing is fixed Silvertown has no future?

Mr White: This is a very public hearing and we are quoted on the stock market. I am not allowed to answer that question.

Q7 Chairman: There is a large number of members of the public here and they are all listening very carefully to what you are going to tell us. We need to know, if we are talking about the future, whether you are saying to us either that you have a refinery, a big piece of fixed capital, and you do not have enough sugar in prospect to push through it to make it work, or the numbers do not add up. You are in a competitive business and either it is going to have a future or it is not in terms of whether you are going to carry on doing it. You have made a case out to the Committee that the margin you need is not big enough, so that can only be fixed, as far as I can see from what you have said, either by some way of pushing up the price of sugar, which is not going to happen, or you having more sugar to get better overheads and reduce the cost that way and increase your margin. Unless there is something I am missing.

Mr White: No; we do need the base raw sugar quantity, we do need the margin improving; you are absolutely correct, that needs fixing.

Q8 Chairman: Without that it puts a question-mark against Silvertown, does it not? You have just told us that if you are not getting the right returns then you are not in a profitable business.

Mr White: It does put a question-mark against Silvertown.

Q9 Patrick Hall: As Mr White says, this is complex, okay, but one thing to me is not complex and is clear and that is that there is a base line market, there is demand and you can predict that. Surely, because there are people ready to buy, it is worth refining and selling to those people.

Mr White: I agree, as long as we can get supply to meet the demand and nobody else has bought it, because in the first three years there is a limited quantity coming into the marketplace, and as long as while supplying that demand we are making the correct margin.

Q10 Patrick Hall: If there is any proven demand, most people in business make their way.

Mr White: Yes, but we have a sugar regime which is setting the price at which we sell it and the price at which we buy it. If the gap is not big enough between the two, then we have a problem.

Q11 Chairman: Looking at the written submission which you have made, you have teased out some of the arguments, but I wonder whether I could persuade you to provide us with a layman’s guide to the pricing structure for sugar and perhaps a little bit of commentary on what you have just said to us about what needs to be fixed compared with where we are now and what is proposed, if you are to have what in your judgment is a fair and profitable business and a future for Silvertown. It would be very helpful for us to have that in writing.

Mr White: Okay, Chairman.1

Q12 Mr Vara: If Silvertown refinery is closed, how many jobs are at stake?

Mr White: Newham is one of the poorest boroughs in the East End of London and we directly employ 1,000 people.

Q13 Mr Vara: You say “directly”. What about others?

Mr White: There is then a multiplier effect obviously with the outsourcing.

Q14 Mr Vara: Can you give us a rough idea of how many others?

Mr White: I would think another 2,500.

Q15 Mr Vara: So it is a total of 3,500 jobs which are threatened.

Mr White: It is one of the poorest boroughs in the East End of London and we also do a lot of community work. We do things like supporting the community food enterprise which delivers fresh food. I do not know whether people know that Newham is the tuberculosis capital of Europe and we actually do a lot of work with a lot of very poor people.

Q16 Lynne Jones: You say that you would be better off in a deregulated market.

Mr White: Yes.

Q17 Lynne Jones: Is that because you could just buy sugar on the open market at a lower price?

Mr White: May I explain that? If there were a totally deregulated market, there would not be much beet production in Europe at all; maybe in the UK and maybe a little bit in northern France. The competition is Brazilian white sugar. There is something called the white/raw differential. We would actually go to the world market and buy world “raws” and that typically is about $65 less than the price for white sugar traded on the market. Then you put 35,000 tonnes of raw sugar in a big ship, take it up to the Thames, down the Thames and offload it. If you are making white sugar in Brazil you put it into 22-tonne food grade containers which are very expensive. That would typically cost $90 to Thames, whereas the big bulk ships cost $35. So there is a $55 difference there. When you are loading the food grade containers and actually offloading them at the port it costs another $20. In a world

1 Ev 13
market we would get a margin of about $140 or €100 to €110, depending on the exchange rate. In a totally deregulated market that is the margin you expect. Another way of doing it would be if we had the same drop in margin as the beet processors, if our margin were cut by 44% as well, then our margin would be €106. Whichever way you do it, we would make acceptable returns on our invested capital with that sort of margin.

**Lynne Jones:** I shall read what you have said and try to digest it.

**Q18 Chairman:** That is why I requested a further note from you: just to help us understand the mechanics. That would be very much appreciated.

**Mr White:** Yes, we will do that.

**Q19 Patrick Hall:** Looking at the evidence you have sent to this Committee, and thank you for doing that, you say in the conclusions that the business is one which "... could compete effectively in a deregulated market"? You go on to say "The Tate & Lyle UK refining operation is not a business which needs artificial support to correct an inefficiency" et cetera. Would I conclude correctly therefore that your business would support the phasing out of the export subsidies through the World Trade Organisation (WTO) negotiations?

**Mr White:** Yes, we would.

**Q20 Patrick Hall:** Would you therefore deal, as a business, without the £100 million export subsidy which your business received last year?

**Mr White:** We would support the phasing out of export subsidies altogether and the Commission has to do that to comply with the WTO rulings. May I try to explain how the subsidies work today? We are the second player in the UK and our margin is not as big, so we have the second largest market share. We are a price follower. We cannot sell all our products currently today in Europe. What we cannot sell, we sell onto the world market. The way the export subsidies work currently is that at today’s values we would get about €230 by selling our white sugar onto the world market. There is a guaranteed intervention price of €630. We get a subsidy of €400 but that does not go into our profits. If we bought our raw sugar on the world market, we would pay about €130. We actually pay €530. We see ourselves as a bridge to the African, Caribbean and Pacific (ACP), to be able to pay the ACP a €530. That €400 goes towards the €530 and then we add another €130 from the actual price we get from the world market and that goes to the ACP countries.

**Q21 Patrick Hall:** I shall certainly look forward to the note you have kindly agreed to produce, which might explain that scene a little more clearly. It does seem that this is not the way one would wish to design the system from scratch. It does seem to have built-in waste, although perhaps those who are involved in producing sugar beet would argue otherwise. What is your assessment of the balance of the whole situation in terms of security of supply, sugar beet in Europe and sugar cane producers and the refining industry, if we stripped away the complex system of subsidies? Would that lead, in your view, to a major economic impact, which would also have costs on the taxpayer, through redundancies and the diminution or reduction or indeed the end of sugar beet production in Europe.

**Mr White:** If you look at the demand/supply balance, there is no doubt that the EU produces five to six million tonnes too much beet sugar. To comply with the WTO we need to reduce our beet sugar production. There are major areas of Europe which really should not be producing beet or making sugar; they are very inefficient. When you look at the refining sector, destination refiners are the most economic business models for supplying refined sugar to a market. If you took away all subsidies, there would maybe be a small beet sugar industry in the UK and maybe northern France, which are the most efficient producing areas.

**Q22 Patrick Hall:** But not as efficient as the best cane ones.

**Mr White:** Exactly. Then you would have more refiners and you would have large-scale refineries and white sugar coming in from Brazil. If you went to no subsidies, not much beet would be produced in Europe and if you look at free markets around the world, when the market is free it is all cane.

**Q23 Patrick Hall:** But you feel that you could cope with this over a period of years, you could adapt to the changes?

**Mr White:** The issue is that this current proposal, which is obviously a liberalising proposal, actually makes it harder for us in this period of the regime than it would in the totally deregulated market. We get a better margin, about €110, depending on the exchangerate. In a...
looking at their industries and a long hard look is essential. The impact will not simply be on the finance of the industry itself: there will be social consequences; in one or two cases one could imagine problems of social cohesion; in a lot of cases the budget will be adversely affected. Sugar is a very important net foreign exchange earner, not a gross foreign exchange earner, but the EU—and quite rightly supported by the British Government—is looking at this on a country specific basis. These economies and the sugar industries within them do differ enormously; they have different histories; some are old, some are new; some are island economies, some are on the mainland; some are irrigated, some are rain fed; in some sugar plays a much bigger role in the economy and in employment than in others. Yes, there is probably a league table, but the countries themselves are conducting this examination at the moment and the Commission and British Government are urging them to come forward with plans which are bankable and the EU will make funding available to assist them.

Ms Jamieson was just finishing off her answer on the subject of the pecking order of countries. I think we got the message that there was a pecking order. Do you want to add anything else?

Ms Jamieson: I think that was it. It is just important to recognise that the circumstances differ so very greatly amongst the industries and it will be dealt with on a country by country basis.

Chairman: Lynne, was there anything you wanted to follow up on that line of questioning, given your interest in LDC/ACP?

Q25 Chairman: Ms Jamieson was just finishing off her answer on the subject of the pecking order of countries. I think we got the message that there was a pecking order. Do you want to add anything else?

Ms Jamieson: I think that was it. It is just important to recognise that the circumstances differ so very greatly amongst the industries and it will be dealt with on a country by country basis.

Q26 Lynne Jones: You say that you would be better off under a completely deregulated market. Yet you do say in your submission that it is essential for assistance to the Sugar Protocol countries to be adequate and they are obviously very concerned. How do you reconcile those two positions and how would you go about it? The ACP countries say that the proposals are totally inadequate to ensure their stability.

Mr White: We are better off in a deregulated market compared with the current proposals. If these current proposals could be fixed, then obviously we should like to continue purchasing from the ACP countries and the LDCs. We have a long-established relationship with these countries and we do understand the value of them selling the sugar to us at £530. We do also understand that the reduction in the raw price will affect some of these countries very badly. Our response to that question is that we need an improvement in the proposals and then we would be delighted to continue buying from the ACP and LDC countries.

Q27 Lynne Jones: What are these improvements? They say they want some help to restructure. You could challenge them by pointing out that they have had this subsidy since 1970 and they should have diversified, but they have not. What would you do, if you were the Commission?

Ms Jamieson: The Commission has come forward with a constructive idea which is looking at these countries on a country-by-country basis, asking them what it is they need for the future. Some of them may decide to cease production; indeed St Kitts has already done that. St Kitts is already now in discussion with the Commission—this is Directorate-General (DG) Development not DG Agriculture—about the sort of assistance which will be available to them. The EU has been unable to put figures on this yet; of course they have not seen the plans. There is a slight problem also with the budget as they do not yet have a budget horizon from 2007 going forwards because that is being debated in another forum in Brussels. So there is this difficulty about knowing what money is going to be available, but the EU is very anxious to start engaging with the countries concerned to work out the sort of assistance they need. Whether it is diversification, restructuring, perhaps budget support, perhaps technical support, a package of everything, perhaps some concessionary financing, this dialogue is starting.

Q28 Lynne Jones: But the amount which is going to be proposed to support the ACP countries compared with the EU’s fairly inefficient beet producers is quite small. Have you, having concern for your historical suppliers, got any other proposals?

Ms Jamieson: This is a direct negotiation between the countries themselves and the Commission. What we have been stressing in every forum we can is that these packages which are worked out, and I use the wording, must be wholly adequate for the countries concerned, correctly targeted, efficiently delivered—and that is important when dealing with DG Development—and also in a timely way—again very important when dealing with DG Development. I understand the British Government is also working through DFID to support this exercise, to ensure that this is dealt with in an adequate way.

Q29 Lynne Jones: So you would like your supplies to be as cheap as possible and for resources to come from elsewhere to support those countries?

Ms Jamieson: No. We will come back to this in our paper, but our margin is the difference between the raw sugar purchase price and the price at which we sell the white refined sugar. The raw sugar purchase price is a statutory price; it is set by the EU. There is no market effect on the price at which we buy our raw sugar, it is a statutory minimum.

Q30 Lynne Jones: But you would like that to be as low as possible?

Mr White: It is not the raw price, it is the difference between the raw price and the white; it is the operating margin. Actually it is irrelevant what the raw price is and what the white price is: it is the difference between the two. We should actually like a remunerative price for the ACP.
Q31 Lynne Jones: But if we want to move towards a deregulated market we should have the supply price as low as possible in order to protect countries who are sugar suppliers and to enable them to diversify?

Mr White: If we wanted to move to a totally deregulated market, some of our current suppliers would not exist in that.

Q32 Lynne Jones: But we have to move towards it, which means a reduction in the price at which they are able to sell to you over time.

Mr White: Which is what the proposal does.

Q33 Lynne Jones: But it does not go far enough for you?

Mr White: No, it is not the raw sugar price, it is the difference.

Q34 Lynne Jones: You want to carry on having it upped at the other end?

Mr White: No. As a cane refiner, it is actually the difference between the price at which you buy the raw sugar and the price at which you sell the white sugar. We are saying that our issue is that the Commission’s proposal, where we make a margin of €44, is flawed.

Q35 Lynne Jones: I understand that, but I am saying that the logic of your position is that it should be support at the other end rather than in the price at which you are able to sell, support for the suppliers.

Mr White: I think the original question was: what would we do to help the ACP countries? The Commission has talked about accompanying measures to try to help those industries and we really have not seen any figures about the first year. What we would do differently is make sure, exactly as Patricia said, that different proposals are designed for different countries. We do know that a couple of countries have come and said that they do not want any money, but instead of sending 60,000 tonnes to the EU, even at this new price, they want 250,000 tonnes and that would compensate them for the effect on the price. That is one solution. Other countries, as Patricia has mentioned, like St Kitts, have actually said that at these prices there is no point making the product and they would like some money, please. There are different approaches and what we are saying is that you have to take every country one by one. In our discussions with the ACP countries, which are very valued suppliers and we have known for many years—and there are several in the room to whom we were talking earlier—it is very different by country. Everybody recognises that we have to reform. What does reform mean? It means reduced prices.

Q36 David Lepper: Do you have the impression that there is any discussion, liaison of any kind in working out the proposals for reform between DG Agriculture and DG Development? Would it be helpful, to the supplier countries in particular, if there had been that liaison if it did not exist?

Ms Jamieson: It is important to look at what the driver was behind this reform. The driving force is to enable the EU to comply with its WTO obligations and very quickly, which means taking out a very large tonnage of production and exports. This is DG Agriculture’s responsibility and DG Agriculture chose the route we are looking at in the proposals now as the way of achieving this. However, we believe this was prepared in discussion with DG Development, with full sensitivity for the problems which would be created for the ACP countries. DG Agriculture have these international obligations to meet: the EU have obligations, which they recognise, towards ACP countries. This is why these country-specific plans to assist in the transition have been devised by DG Development.

Q37 David Lepper: Is the situation any different for those supplier countries which are French départerments overseas to other supplier countries?

Ms Jamieson: Yes.

Q38 David Lepper: Or are they all affected in the same way?

Ms Jamieson: The départerments d’outre mer, which for the purposes of sugar are really Guadeloupe in the Antilles and Réunion in the Indian Ocean, are legally and constitutionally a part of metropolitan France, so they are internal producers in the same way that a beet farmer in France is part of metropolitan France, part of the EU. They are subject obviously to very different terms and terms of compensation, in the same way that the beet farmers are being offered different compensation. Yes, they have a very different compensation package.

Q39 Chairman: Just to try to put this into context, I think you process 1.3 million tonnes of cane sugar.

Mr White: One point one million.

Q40 Chairman: That was carved out as your allocation when the sugar regime was first invented. I presume that any increase in the amount of cane coming from the countries we have just been discussing under the new regime will be entirely at the expense of production from beet.

Mr White: There are no new imports from those countries in the proposal.

Q41 Chairman: No, but you mentioned a second ago that there are some countries who said that, as a compensating variable, to take into account the reduction in the price of sugar, that they would like to send more sugar. Right?

Mr White: Yes; some said they do not want to send any.

Q42 Chairman: I suppose the first question ought to be: do the non senders net off against the extra that the others would like to send?
Mr White: We do not know the answer to that question because we do not know the whole picture. The proposal is that the amount of raw sugar that comes in from all the ACP countries remains the same.

Q43 Chairman: Let me approach this another way. You said earlier on that you have a capacity, with a few tweaks to your plant, to do 1.5 million tonnes, so you would like 400,000 extra tonnes to come in. Right?
Mr White: Yes.

Q44 Chairman: If those 400,000 extra came from producers who wanted to send more from ACP/LDC sources, that 400,000 would effectively be a diminution from the amount of sugar produced by beet. Is it a straight one for one swap?
Ms Jamieson: There is another area here which is another European policy area: the EU has to review the Sugar Protocol before 1 January 2008. We are not party to the policies which these individual governments are going to adopt on this. The EU is looking towards regional economic partnership agreements being the outcome of the Cotonou negotiations. The Sugar Protocol will be an issue in parallel with that. Some of these countries may, in that context in these free trade areas, be looking to have no restrictions perhaps on their exports to the EU, but this is an area which has not yet been tackled by the EU. A number of supplying countries have perhaps different views as to how they would like to see this process evolve.

Q45 Chairman: I do not want to prolong this area of discussion, but would I be right in thinking that it would be better if all of these items could be bolted down before finally the new regime is in place, because it does seem to me that if you get more sugar from one source, it is bound to have an effect on the sugar from the other source. Should it all be bolted down? You have given us the impression that there are still things that are in the air, notwithstanding what might be agreed by the Council of Ministers at the end of this year. Or do you think it will not be agreed at the end of this year?
Ms Jamieson: Again it is difficult, not being party to the inner circle.

Q46 Chairman: You have been in this business for 25 years; we know you know everything there is to know about sugar. Give us the benefit of your distilled wisdom.
Ms Jamieson: There is a considerable drive within Europe to try to reach agreement on this in November. Why? Because the EU has the WTO obligation which it must meet and they will have to be in a position to do that by 1 July 2006, perhaps latest October 2006. To do that there are decisions which have to be taken now; they cannot wait. From a number of people's point of view and the industry's point of view, ours certainly and I know others, if you are going to invest, if you want to remain in business, if you want to retain staff, remain a vibrant industry, you must be able to see the future. To keep putting it off continually is very damaging.

Q47 Mr Vara: You will of course be aware that in the draft regulation there is provision to restrict the ability to refine cane “raws” to full-time refiners for the first three years.
Mr White: Yes.

Q48 Mr Vara: Why should there be this regulation Right?
Mr White: Yes.

Q49 Mr Vara: Would you contest the right of beet processors like British Sugar to refine sugar under any terms of agreement?
Mr White: No. If you look at the UK beet processors, there are two big issues here. One of the major drivers for the Commission is to have an efficient industry. Any way you look at it the refining industry are a lot more efficient than the beet industry. So you do not want to be losing the refining industry going forward. The second thing is that the Commission is trying to take out between five and six million tonnes of beet production. The
efficient producers will stay in business. What will the inefficient ones do, the ones which the Commission want to go in certain countries? They will try to buy raw sugar for refining. They will actually process that as a way of earning extra money, putting cane refiners out of business, making the industry less competitive because people have dropped out of the industry and keeping themselves going. The objective of taking five or six million tonnes of beet production will not be achieved. This is actually a very serious threat to the number one objective of the Commission’s proposals which is to reduce beet production.

Q51 Mr Williams: Twice you have said that it was possible for beet processors to buy quota. Off whom would they buy quota? Would it be another nation? I did not think there was any transfer between nations.

Mr White: I think there is some misunderstanding there. I think what I said was that some of the beet processors are trying to buy cane sugar on top of their beet quota.

Q52 Mr Williams: But they cannot buy beet quota.

Mr White: No; sorry, they can. Everybody stays with their current quota and then there is an opportunity by country in the current proposals for the beet processors to purchase extra quota.

Q53 Mr Williams: From?

Mr White: The Commission have identified one million tonnes of extra quota across Europe and they split it percentagewise by country and the beet processors have the opportunity to purchase that quota.

Q54 Lynne Jones: May I just show my ignorance? When we talk about the inefficient producers are we talking about the farmers producing the beet or are we talking about the processors?

Mr White: No.

Q55 Lynne Jones: I thought the issue was that we have regions of the EU which are growing sugar beet and they are inefficient in the growing of the beet. That is not the issue.

Mr White: I was actually talking about the total beet industry. You are absolutely right: there are certain areas where the yield is bad and I was really talking about those. Also in those areas, typically where the yield is bad, there are not efficient processors either. If you actually look at the beet processing industry, the best yields are in that basin across northern France and parts of the UK, but also the best processing industry is there as well.

Q56 Lynne Jones: Is the system that the countries which are producing beet process their own beet?

Mr White: Yes.

Lynne Jones: Right. I did not realise that.

Q57 David Lepper: I am right, am I not, that you are the major, in fact the only refiner of sugar cane in this country?

Mr White: Yes; we had six refiners.

Q58 David Lepper: You refine more than any other company in the EU?

Mr White: Yes, we are the largest sugar refiner in the world.

Q59 David Lepper: I just wanted to make sure I had got that right. Am I also right that one likely effect of the reforms is a concentration in the sugar processing sector generally?

Mr White: Yes.

Q60 David Lepper: Fewer people doing the job?

Mr White: Yes.

Q61 David Lepper: Back in 1998 Tate & Lyle was one of a number of companies which were fined by the European Commission for price fixing, rigging the market in granulated white sugar during the 1980s. Am I right there?

Mr White: Yes, you are.

Q62 David Lepper: Is one unforeseen—or perhaps foreseen—consequence of the reforms increased scope for price fixing among a smaller number of people involved in the industry?

Mr White: The core values of our business are safety, knowledge, integrity and innovation and I do not think any Tate & Lyle executive manager or director would ever do what was alluded to have happened back in the 1980s. Tate & Lyle would never ever, in the future, with the values we have in our business, do that sort of thing. To the other part of your question, yes, these proposals will increase the concentration of the business across Europe.

Q63 Lynne Jones: Are you denying that you did this in the past?

Mr White: This happened in the 1980s and the court case was eventually in 1998, which was before my time.

Q64 David Lepper: I was casting no doubt on your rectitude whatsoever; I was just trying to make sure I had got it right. Did this happen in the past?

Mr White: It did.

Q65 David Lepper: I was not suggesting that Tate & Lyle would be involved but that if there were fewer people doing the job, there would be a chance of them getting together to fix things.

Mr White: I do not think that ever happens.

Q66 David Lepper: I have in mind that when this Committee produced a report on the sugar regime a year or so ago	extsuperscript{3}, the Government, in its response, told us that if progress was not made on increasing competition, then the competition authorities should consider the case for an investigation into the

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market. Should there be such an investigation, are you confident that the market would have nothing to fear?

Mr White: Absolutely.

Q67 Mr Rogerson: If we are talking about concentration of the industry, from what you are saying, if these proposals were to go through and these effects you are describing were to happen, that concentration might well be at the expense of the cane refiners rather than necessarily the beet industry.

Mr White: It is fair to say that the French industry, part of the German industry and the UK industry will be very happy with this proposal. The more inefficient areas of Europe actually might be happy with the proposal as well because there is a restructuring fund where you can get €730 per tonne, which is a good payment. They might be happy as well, but there are certain players who will come out. There is also a danger that certain cane refiners might come out as well. Yes, there will be fewer players within the European market.

Q68 Mr Rogerson: Changing the subject quite considerably, we are in the middle of a UK Presidency of the EU and therefore when matters such as this are discussed we have a UK Presidency of that. What sort of effect do you think that is likely to have in terms of the UK Presidency at those negotiations in terms of being able to argue the effects domestically?

Mr White: It is a difficult question and a bit of a double-edged sword. We need the British Government to stand up for the needs of British industry and British farmers and also the ACP and the LDCs. They also have another task which is as UK President they obviously want to try to get this through. We are not sure; I am sure we will be able to answer that question better in January, but there is a worry there.

Q69 Mr Rogerson: Do you think it would have been better for your industry if a deal had been struck outside the UK Presidency?

Mr White: It is very hard to answer that; it really is very, very hard to answer that.

Q70 Mr Vara: You say that there is no possibility of price fixing. Two points: you would say that would you not? Secondly, you say you are the biggest refiners in the world, how often do you meet with your colleagues who are also world refiners? When do you meet, what do you talk about?

Mr White: We have a business called Tate & Lyle Process Technology and we have some proprietary technology about how to make refining industries all over the world. So we actually have a business which builds refineries. We are just building one in Egypt, we are building one in Jeddah, we have one in Dubai and we are looking at several projects across the world. Then we use outside studies to measure the efficiency and benchmark those refineries against others in the sugar industry. Effectively, when we do meet other refiners across the world, what we are talking about is improving technology, trying to get our costs down, all the sorts of things you do in industry. We operate in a very different market. Within our own company, as we own assets in Canada and we own assets in a joint venture Saudi Arabia, we obviously share more information.

Q71 Mr Vara: Because you have this global reach, there is nevertheless a possibility of price fixing because you are such a huge multinational player.

Mr White: I would not say we are a huge multinational player.

Q72 Mr Vara: Did you not say earlier on that you are the world’s biggest refiner.

Mr White: The biggest refiner but in a market of 145 million tonnes, we process about 3.5 million tonnes. So in a market of 145 million tonnes the whole of Tate & Lyle across the world processes 3.5 million tonnes and the whole world market is 145 million. Although we have the biggest refinery in the world, we are not the biggest sugar company in the world and our total share would be 3.5 divided by 145.

Q73 Chairman: Just a couple of little points to conclude. In paragraph 12 of your evidence you say “The resulting refining margin would allow the refinery to cover the fixed and variable production costs, as well as allowing for an acceptable return on capital invested in the plant”. What is “an acceptable return” as far as Tate & Lyle are concerned?

Mr White: In line with other food processors, a return on net operating assets of 20%. That would be in line with other food processing businesses within the UK.

Q74 Chairman: Given that you have a range of refineries outside the United Kingdom, do they make that kind of return or is there a variation?

Mr White: Our businesses vary between 20 and 25%.

Q75 Chairman: I could not find in your evidence the word “isoglucose”. Why?

Mr White: Because Tate & Lyle Sugars, Europe do not produce or have anything to do with isoglucose. That is a different part of the business called Tate & Lyle Food and Industrial Ingredients.

Q76 Chairman: Do you not talk to the other part of your own business?

Mr White: We do, but they are based in Europe and their submissions have actually gone through mainly to the Belgian Government and Dutch Government, although we do have a small factory the other side of the Thames.
Q77 Chairman: They might like an increase in the isoglucose quota? Does that not throw a spanner into your works?
Mr White: The proposal has a small increase in the isoglucose quota. However, the real issue on isoglucose—obviously we do talk and we know the key issues—is that as the sugar price within the sugar market decreases—the white price, but also the raw price, whether it is beet or cane; within the isoglucose market the price is set by the sugar price and it is slightly under, but the wheat or corn price has not moved at all—so the margins in isoglucose will fall and that is partly compensated by the proposals which increase the quota for isoglucose.

Q78 Chairman: Is it right that that part of the sweetening market should be constrained by a quota?
Mr White: The whole market is constrained by quota; the beet production is and we are constrained by the amount of sugar “ravs” we can get.

Q79 Chairman: The increase is very small. If they said in the farming industry that they would grow less sugar beet but they could compensate for that by growing more crop for the isoglucose market, they would go after that, they would be constrained by the size of the market by virtue of the quota. What happens if they fiddle about and persuade the Commission to increase the amount of isoglucose quota? Does that unbalance the market or does it have to be a zero sum game that it still comes back to the same quantity of sugar produced?
Mr White: The isoglucose figures are actually in the whole demand/supply balance, so if isoglucose went up further, then sugar would have to come down further.

Q80 Chairman: From your standpoint I presume you would tell your chums in the rest of your company “Lay off, we don’t want any more isoglucose, please”. We are friends now...
Mr White: We have to look at it as one Tate & Lyle.

Q81 Chairman: There is one Tate & Lyle, but you might just not be encouraging them to push too hard for that.
Mr White: We are here and my role is to look after our sugar interests. If I were offered more quota for Tate & Lyle Sugars’ refinery, like the beet guys have and like isoglucose, I should be very happy, but we have not been offered more quota.
Chairman: Very good. Mr White, Patricia Jamieson, thank you very much indeed for your evidence. We shall look forward to your written submission to us of further education and enlightenment on refining margins and price. If there is anything else you want to add to it by way of clarification when you get home and you think “Oh my God, I should have said that”, do add it. If you regret anything you have said, it is too late.

Supplementary memorandum submitted by Tate & Lyle Sugars, Europe

EXECUTIVE SUMMARY

Section I responds to the request for information on the EU sugar price structure. The main elements are the minimum sugar beet and raw sugar prices that processors are obliged to pay, and the white sugar price guarantees afforded under the regime. Refining adjustment aid is currently payable to refiners to correct a price anomaly. The proposed regime includes changes to both the price structure and pricing mechanisms, including abolition of refining aid from 2007–08 onwards.

Section II responds to the request for information on the calculation of comparative margins. It explains how the margins are effectively set by the regime price structure and highlights the evolution of the comparative margin for the beet processor and the cane refiner. The refiners’ margin would fall by 77% while the beet processors would fall by only 44%. The key reasons for this are explored.

Section III responds to the request for further information on the margin available in a totally deregulated market. It explains and quantifies the margin of around €100 to €110 which would be available to destination refiners in a fully deregulated market. It includes evidence prepared by LMC, regarded as the world’s pre-eminent economic sugar consultancy.

Section IV responds to the request for further information on export refunds. It explains the role of exports refunds and that the subsidised re-export of refined ACP sugar represents a transfer from EU tax payers to Protocol suppliers, with the cane refiner effectively acting as agent.

Section V is additional information presented by TALSE on the refining chain. It describes the cane growing, milling, shipping and refining chain and contrasts it with beet growing and processing.

The search for solutions to the margin problem continues. The regime, as proposed, affords us a margin of €44. In a deregulated market we would receive €100 to €110. If the refiners margin were to be cut by the same amount as the beet processor’s margin this would result in a margin of €106. A corrective mechanism package of the value of circa €60 per tonne is the only solution to fix this distortion. In TALSE oral evidence, reference was made to international benchmarking of refinery performance. This is a sound management tool, but it must be done with a true understanding of the basis of the figures being compared and their reliability. The threats arising from the margin problem are compounded by the threats to the refiners’ sugar supply should it be reduced by inequitable competition from beet processors. In buying sugar
for refining, they would benefit from a cross subsidy from the price support that will continue to be afforded by the regime for the beet sector. In the same way as the beet processors have a base quota with which to cover their fixed costs, the refiners should have a base supply of sugar for refining.

SECTION I

**EU sugar regime price structure**

1. The EU sugar regime sets a series of minimum price guarantees that operators within the regime are legally obliged to comply with or can benefit from. These guarantees apply to, amongst other variables, the minimum sugar beet price, the guaranteed price for raw sugar (both from beet and imported raw cane sugar), and white sugar. Also, the regime includes a complex set of levies that are charged to the beet growers and processors. These are calculated in order to offset some of the costs of export refunds on sugar that the EU budget otherwise finances.

2. The price structure of the EU sugar regime is set out in the current basic sugar Regulation 1260 of 2001. The reform proposals are designed to change this. These determine the price structure, and hence prices and margins, available to cane and beet growers, processors and refiners under the new regime.

The current EU price structure is set in euros. The key prices are set out in table 1.

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<thead>
<tr>
<th>Table 1</th>
<th>CURRENT EU SUGAR REGIME PRICE STRUCTURE</th>
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<tbody>
<tr>
<td></td>
<td>Price per tonne</td>
</tr>
<tr>
<td>White Sugar intervention price</td>
<td>€631.90</td>
</tr>
<tr>
<td>Raw Sugar guaranteed price</td>
<td>€523.70</td>
</tr>
<tr>
<td>Minimum beet price</td>
<td>€47.67</td>
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<tr>
<td>Refining adjustment aid</td>
<td>€26.86</td>
</tr>
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3. The prices are established on a mixed basis. For instance, the white sugar intervention price is based on standard quality white sugar. The raw sugar price is based on raw sugar that has to go through a conversion process to become white sugar. The beet price is per tonne of beet, which also goes through a conversion process. In order to bring these prices back to a common basis, they are expressed in terms of white sugar equivalent. The relevant conversion factors are laid down in the sugar regulation.

4. These prices are often referred to as the institutional price structure, and they largely dictate the margins afforded to the processing and refining sectors. There are some other small elements of the price structure that are important, such as transport and reception costs, which are also established by the regime. However, the key determinant of the margin available to the processor and the refiner is the difference between the raw material purchase price and the white sugar sale price, net of any levies payable.

**Refining adjustment aid**

5. One notable exception to this under the current regime is refining adjustment aid. This was put in place in the 1980’s because the gap between the current raw sugar guaranteed price and white sugar institutional price is fixed on the basis of the variable costs of refining raw sugar in a beet factory. On accession of the UK to the EU, it became clear that this was an anomaly in the pricing structure and that this meant the margin was not sufficient to cover the costs of a full-time destination refinery. Refining adjustment aid was thus established to supplement the institutional margin of full-time refiners and correct the pricing anomaly.

6. The Commission proposals lay out the price structure foreseen under the new regime. There are a number of key changes to the price structure itself. These are:

   — The major innovation is the establishment of a Restructuring Fund. This is designed to encourage those beet processors and isoglucose and inulin producers who will be unviable under the reformed regime to exit from the industry on a voluntary basis. The sugar beet price will be reduced at a faster rate than the white sugar price. The extra margin (income) generated for the beet processor will be paid into a Restructuring Fund to finance the claims being made by those producers relinquishing quota.

   — The Refiners are excluded from participation in the Restructuring Fund. Instead of paying money into the fund, like the beet processors, the extra margin (benefit) accruing to the refiners will be paid to ACP and LDC suppliers through a raw sugar price reduction which is slower and less severe than the cut in the minimum beet price.

   — Refining adjustment aid is cancelled from 2007–08.
— A production charge replaces the production levies currently payable. Instead of being a variable charge, calculated separately for each MS, it is a set charge across the EU.
— The intervention price is replaced by a reference price system. In effect, this is a less robust price guarantee mechanism.

7. The proposed price structure is set out in table 2. This is the structure that will apply from 2009–10 onwards. There is a transitional phase in the early years of reform, when the price structure is different.

Table 2

PROPOSED EU SUGAR REGIME PRICE STRUCTURE FROM 2009–10 ONWARDS

<table>
<thead>
<tr>
<th>Price per tonne</th>
<th>Price in White Sugar Equivalent per tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>White Sugar intervention price</td>
<td>€385.50</td>
</tr>
<tr>
<td>Raw Sugar guaranteed price</td>
<td>€319.50</td>
</tr>
<tr>
<td>Minimum beet price</td>
<td>€25.05</td>
</tr>
<tr>
<td>Refining adjustment aid</td>
<td>€0.00</td>
</tr>
</tbody>
</table>

SECTION II

Margins

Basic Margin Calculation

8. In effect, the absolute price level of the EU sugar market is not important to the processor or refiner. It is the difference between the institutionally fixed raw material purchase price and finished goods sale prices that establishes the margin available.

9. In our original evidence TALSE stated that the refiners margin would fall by 77%, whilst the beet processors margin only fell by 44%. The detailed calculations of these margins, and explanation, is set out in Annex I.

The key reasons for the significantly sharper reduction in refiners margin are:
— The raw sugar price is cut by 39%, whilst the beet price is cut by 43%.
— Refiners’ adjustment aid is cancelled from 2007–08 onwards.
— The beet processor benefits from a significant reduction in levies payable.

Margin Calculation and the 10% beet price flexibility clause

10. There is provision in the proposals for a reduction of up to 10% in the minimum beet price if the market price falls by 10%. There is no equivalent provision for the cane refiner. We are not asking for such a provision, as we recognise that this would further pressure our preferential suppliers. However, a 10% reduction in the market price—approximately €39 at the proposed reference price of €385—would result in a corresponding further decrease in the refiners’ margin. This would leave a margin of only €5 per tonne to cover all costs and provide a return on capital employed in the business. This is clearly a ridiculous situation.

SECTION III

Margin available to refiners in a totally deregulated market

11. Not only is the refiners’ margin reduction significantly greater than the beet processors, but it also yields a margin significantly lower than that available in a totally deregulated market. Whilst total deregulation is not a policy option in this round of reform, it seems particularly economically perverse that a significant margin squeeze should consciously be applied to one of the few EU sugar producers that could compete effectively in a totally deregulated market.

12. The margin available to a destination refinery in a totally deregulated market is effectively the difference between the cost of importing and refining sugar, and the competing cost of imported and refined sugar products for direct consumption. This margin comprises three key elements:
— The basic difference between the white sugar and raw sugar price. This is often referred to as the white/raw differential. It is often mistakenly thought that this alone would be the margin of a destination refiner in a totally deregulated market.
— The extra freight cost of shipping, in food-grade containers, white sugar compared to shipping raw sugar in bulk.
The extra costs of unloading, stocking, repacking and distributing the imported product at the market of consumption.

13. The principle above, and the three key elements, are explored in more detail in a report from LMC, the independent international sugar economic consultancy (see annex I).

14. At current prices, the three elements above would allow a destination refinery in a totally deregulated market to produce sugar at around $120 per tonne as this is the extra cost which would be reflected in the price of imported white sugar. The three elements that contribute to this margin are set out in table 3.

Table 3

EXTRA COSTS OF IMPORTING WHITE SUGAR VS IMPORTING AND REFINING RAW SUGAR IN A TOTALLY DEREGULATED MARKET

<table>
<thead>
<tr>
<th>Cost</th>
<th>$ per tonne</th>
<th>€ per tonne*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra sugar cost</td>
<td>45 (1)</td>
<td>38</td>
</tr>
<tr>
<td>Extra freight cost</td>
<td>55</td>
<td>46</td>
</tr>
<tr>
<td>Extra storage and logistics cost in importing country</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>TOTAL extra cost/margin available</td>
<td>120</td>
<td>101</td>
</tr>
</tbody>
</table>

assuming €1 = $1.20.

(1) This is the basic white raw differential of €65, converted to white sugar equivalent.

SECTION IV

Export refunds for sugar

15. The EU currently produces around 2 million to 3 million tonnes more quota sugar than it consumes. This sugar is currently exported to world markets. The raw material for quota sugar (sugar beet or preferential raw cane sugar) has to be purchased at the high EU price. Currently, Tate and Lyle pay €523.70 per tonne for raw sugar from the ACP. The world market price for the same raw sugar is currently less than €200 per tonne.

16. The white quota sugar sold to the world market has to be sold at the low world market price in order to be competitive. This price is typically as low as a third of the EU price. This means that there is a large gap between the high EU price and the low world price. This price needs to be bridged in order for TALSE to afford to be able to purchase the preferential sugar at the high price. Under the current regime, this gap is bridged by an export refund.

17. World market prices and currencies are constantly changing, and hence the size of the gap that needs to be bridged varies too. However, at present, the value of the export refund is around €400 per tonne.

The export refund calculation for refiners is illustrated in table 4.

Table 4

REFINERS EXPORT REFUND CALCULATION

<table>
<thead>
<tr>
<th>Revenue and costs</th>
<th>Per tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Revenue from sale of sugar on world market</td>
<td>€230</td>
</tr>
<tr>
<td>B Export refund value</td>
<td>€400</td>
</tr>
<tr>
<td>C = (A + B) Total revenue</td>
<td>€630</td>
</tr>
<tr>
<td>D Cost of ACP sugar* (540)</td>
<td></td>
</tr>
<tr>
<td>E = (C + D) Refining margin from export sale</td>
<td>€90</td>
</tr>
</tbody>
</table>

*The guaranteed raw sugar price in white sugar terms, minus refiners adjustment aid.

18. Clearly, without export refunds Tate & Lyle would not be able to afford to buy the raw sugar from the ACP that corresponds to that proportion of its output it has to export outside of the EU. These payments are not designed to cushion an inefficient business, but rather correct distortions of the CAP sugar regime. The British Government’s Regulatory Impact Assessment of the proposals states clearly and accurately

6 Not printed
“Because the UK cane refiner must pay ACP suppliers a high guaranteed price, its margin is institutionally fixed but narrow. This makes it artificially dependent upon some £21 million of EU ‘adjustment’ or margin aid, and indirectly upon a further £100 million of export subsidies, which are not, as might be implied by press reports, direct additions to its bottom line. Broadly speaking, the subsidised re-export of refined ACP sugar, represents a transfer from EU taxpayers to Protocol suppliers, with the cane refiner effectively acting as agent.”

19. The particularly high value of these payments in the sugar sector is because the EU sugar price is around three times the world price. Most other sectors have similar payments, but their value is significantly lower. This is because the difference between the EU prices and world prices in products like grains is much smaller.

20. If the price cuts in the Commissions proposals are accepted, then the difference between the EU price and world price of sugar will fall, and the value of the export refunds needed to bridge the gap will fall. However, EU prices will still remain above world prices, and for any quota sugar exports that are needed to balance the EU market export refunds will still be needed to ensure world market sales of EU quota sugar are economic.

21. These quota exports will be very much less than at present and within Uruguay Round export restrictions on volume and total subsidy value. The EU has already offered to eliminate export subsidies if other WTO members make offers of similar value. The result would be no need for any EU sugar producer or refiner to export sugar.

SECTION V

Refining overview

The Production and Refining of Cane Sugar

22. The production of white sugar from refined cane sugar in a full-time refinery accounts for around 10% of EU white sugar supply and consumption. The balance is produced from the processing of sugar beet in beet processing factories.

23. The refining of cane sugar in the EU is described as destination refining. This is a business model where the first stage of processing is completed in the country of cane growing. This involves crushing the cane, extracting and crystallising the sucrose, and producing a product not suitable for human consumption in developed markets. The second stage is completed in a refinery close to the final market for the end product. Destination refineries are the most economic method of supplying white sugar to developed markets.

Cane Growing

24. Sugar cane is grown in tropical and semi-tropical regions of the world. Once planted, the cane is harvested annually. The root of the crop is left in the ground and the regrowth subsequently harvested the following year. This cycle can be repeated as many as ten times. Sugar cane is one of the few agricultural crops where supply is relatively inflexible, due to the fact that once planted it will be harvested each year.

25. The cane is harvested and transported to sugar mills as quickly as possible to avoid exponential quality deterioration. At this stage, the cane resembles a thick bamboo shoot, with a tough outer coating protecting a sweet, woody fibre.

Cane Milling

26. At the mill, the cane is crushed and sprayed with hot water. This brown liquid is then filtered to produce juice, then further boiled to syrup. Finally, the syrup is used to produce crystals (raw sugar) and syrup (molasses). The whole process is energy self-sufficient as the remaining cane fibre is used to fire the boilers. Surplus cane fibre (bagasse) can then be used to produce electricity for the national grid.

Shipment of Sugar for Refining

27. The raw sugar has the appearance of the soft brown sugar used in cooking. However, it is not suitable for human consumption. The raw sugar is then sent for final refining in large, ocean-going bulk vessels. The TALSE Thames refinery takes deliveries in vessels as large as 34,000 tonnes. The large size of the vessels, and the fact that they can be used to ship anything from grains to metals, means that they are the most cost-effective way of moving sugar around the world.
Refining

28. When the raw sugar arrives at the destination refinery, it is offloaded and stored in very large storage sheds. The raw sugar is then remelted into a liquid and has the remaining impurities and colour removed from it before being converted into a large range of finished products. These include an extensive range of white sugars, brown sugars, liquid sugars and syrups to suit the sophisticated and diverse requirements of EU sugar consumers.

Difference between Refining in a Destination Refinery and Concurrent/OV

29. A destination refinery is different in some ways to a beet factory, but similar in others. The destination refinery is a partial process, in that it is performing the final refining of sugar that has already been partially processed. A beet factory is a complete process, performing the initial slicing of the beet (much like in the cane mill), extracting the sucrose and converting it to a range of consumer products. It would be possible for a beet factory to refine imported sugar by making small investments in technical modifications, raw sugar handling, stores and equipment but it is not possible for a refinery to process and refine sugar beet.

The UK Refinery

30. The TALSE Thames refinery is the largest in the world, producing over 1.1 million tonnes of sugar products per year. This compares with a typical EU beet factory producing 50,000 to 100,000 tonnes per year, and the most efficient producing around 200,000 to 250,000 tonnes per year. The scale of the Thames operation is a direct result of a restructuring programme designed to reduce costs in response to the pressures the sugar regime has put on the business since the UK joined the EU. The number of Tate and Lyle refineries in the UK has reduced from six to one since accession. This restructuring has been done at no cost to the EU, but at significant financial cost to the company and human cost to the employees. Clearly, there is no room for further rationalisation of UK refining capacity and due to EU restrictions on the availability of imported sugar for refining the remaining refinery is forced to work at only 85% or less of capacity. This, of course, raises unit costs. Refining as an activity has high fixed costs. Any further loss of supply can only threaten the viability of the operation.

Annex I

MARGIN CALCULATIONS

These calculations and notes show the impact of the Commission Proposal on margin. It should be noted that the margin figure is not profit, but the difference between institutional purchase and sale prices. It has to cover all costs of processing.

The table below details the margin calculations. Each row is designated a letter. The noted below explain the components and the calculations, making reference to these letters.

MARGIN CALCULATIONS EXPRESSED IN £ PER TONNE WHITE SUGAR EQUIVALENT (WSE)

<table>
<thead>
<tr>
<th>Component</th>
<th>Tate &amp; Lyle</th>
<th>UK processor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>04/05</td>
<td>09/10 to 14/15</td>
</tr>
<tr>
<td>A Price</td>
<td>725.0</td>
<td>385.5</td>
</tr>
<tr>
<td>B Regional Premium</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>C Raw Material Cost</td>
<td>−569.2</td>
<td>−347.3</td>
</tr>
<tr>
<td>D Regional Premium to Farm</td>
<td>−14.6</td>
<td>—</td>
</tr>
<tr>
<td>E Levy From Farmers</td>
<td>18.8</td>
<td>6.0</td>
</tr>
<tr>
<td>F Margin Aid</td>
<td>29.2</td>
<td>—</td>
</tr>
<tr>
<td>G Net Raw Material Cost</td>
<td>−540.0</td>
<td>−347.3</td>
</tr>
<tr>
<td>H Transport &amp; Reception</td>
<td>−9.0</td>
<td>−9.0</td>
</tr>
<tr>
<td>J Beet Molasses Credit</td>
<td>22.5</td>
<td>22.5</td>
</tr>
<tr>
<td>K Levy to RPA</td>
<td>−32.4</td>
<td>−12.0</td>
</tr>
<tr>
<td>L Margin</td>
<td>190.6</td>
<td>43.8</td>
</tr>
<tr>
<td>M Reduction %</td>
<td>77%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Row A

The comparison is based on commercial selling prices. This is because

— The Commission have made clear in a number of documents as the reform process has progressed that the intention in the new regime is for the market price to be the reference price.
— The basic price used for the 04/05 calculation is €725 for EU sales. This is an estimate made by the Commission in their initial impact assessments.
— Note that the €655 market price expressed in the July 2004 Commission proposal is after the deduction of production levies and restitution sales. We have dealt with these separately (rows E and K) in our calculations for clarity.

**Row B**

The UK regional premium of €14.60 per tonne (the derived intervention price set for the UK in the current regulation) is assumed to be achieved in addition to the sale price pre- and post-reform. This effectively increased the refiners margin over the base case. It is assumed that this revenue would continue to be included in the margin calculation even post-reform. However, the likelihood of this premium being achievable is under serious question. Removing this premium from the calculation would further reduce the margin available to refiners.

**Row C**

Net Raw Material Cost is the guaranteed price. In the case of Tate and Lyle this is the Raw Sugar price converted to white equivalent. It is very important that this conversion is taken into account. Some calculations we have seen have forgotten this and the result is a suggestion that refiners margins will actually be around €30 higher than they actually will be. The guaranteed price of €319 is for raw sugar at 96 POL. POL is an indirect measure of the sucrose content of the raw sugar. Converting this to white sugar equivalent requires the €319 to be multiplied by 0.92 (2 POL—100). For the beet processors this is the basic beet price converted to white equivalent. Both of these costs are shown as negative, i.e., a cost.

**Row D**

Any UK premium achievable by the beet processor would not need to be passed onto the farmer post-reform, as under current regulations. This premium thus becomes a windfall gain to the beet processor.

**Row E**

This row shows the production levy payable by farmers (or the production charge post-reform). This is shown as an income to the beet processors, as in effect they simply withhold this element from the beet payment to farmers. They then make the payment, together with their share of the levy, to the RPA or national agency (see Row K).

**Row F**

This element is included in Tate and Lyle margin calculations in 2004–05 but not in 2007–08, as per the proposal.

**Row G**

This row shows the net raw material cost after taking into account regional premium payable to farmers, production levy received from farmers, and any margin aid received by refiners. It is made up of $(G = (C + D + E + F))$.

**Row H**

This row shows the institutional transport and reception costs which the Commission use when moving between the white sugar intervention price and the basic guaranteed prices for beet and cane.

**Row J**

This row shows the institutional beet molasses credit that the Commission use when calculating the white sugar intervention price from the basic guaranteed price.

**Row K**

This row shows the production levy payment made by beet processors to the Member State intervention agency, which is then passed on to the Commission. This includes the farmers share detailed in row E. Row K—Row E is the beet processors share of the levy. In the UK example, this is €13.6 per tonne.
This row is the margin available to the business to cover its processing costs and make a return on the capital employed in the business. It is \( A + B + G + H + J + K \).

This row is the percentage change in margin compared to the current, 04/05 margin.

Tate & Lyle Sugars, Europe
October 2005

Memorandum submitted by The UK Industrial Sugar Users Group

UKISUG represents the UK’s manufacturers of food and drink, including companies both large and small. Overall, they employ some 80,000 people in the UK, with consumer sales of around £15 billion per annum. They use 70% of UK sugar consumption (1.2 million tonnes) and are therefore an important stakeholder in the sugar regime.

1. The extent and timescale of the proposed price reductions

1.1 UK industrial users of sugar fear that the proposed price reductions will leave the EU price of sugar still some way above the world price. The continuing pressure in the WTO to reduce the size of the budget for export refunds (which are intended to bridge the gap between the world and EU prices) means that a higher EU price will always remain a worry. The current gap between European and world prices has contributed to the loss of 16,000 jobs in the confectionery sector in the last five years.

1.2 As regards timescale, it is naturally preferable to industrial users for the proposed price cut to be implemented as quickly as possible. The loss of jobs and production in the UK because of the high sugar price is a current and ongoing problem and needs to be addressed straightaway.

2. The extent to which the proposed reductions in price will be transmitted to the consumer

2.1 There are two points to consider here: first, the extent to which any reduction in the official price will actually be reflected in the sugar market; and secondly, the extent to which any reduction in the price in the sugar market will be reflected in consumer prices.

2.2 Industrial users have grave doubts about the first of these. At present, the market price is between 10 and 22% higher than the intervention price. This suggests that the market is not functioning normally, given that there is an excess of supply over demand. A look at the market structure explains why this is. The quota system is in effect a division of market share by law. Each sugar processor has an upper limit on the amount of sugar it can sell each year. There is no incentive for a supplier to win new business because it would have to relinquish existing business as a result, due to the cap on how much sugar it is allowed to sell. The normal process of competition—in which suppliers compete with each other to attract customers—is simply absent. The Swedish competition authority has described this as leading to “tacit collusion”.

2.3 The Commission’s proposed reform changes this arrangement barely at all. Quota will continue to be divided among sugar processors, so the restraint on competition remains. In fact, given that the number of sugar processing businesses is likely to be reduced by up to two-thirds, the extent of tacit collusion is likely to grow. Industrial users argue that, if the whole notion of a quota system is to be retained at all, further measures are needed to ensure that sugar processors are forced to compete with each other rather than permitted to operate in a partitioned and uncompetitive marketplace. For example, article 37 of the proposed regulation allows for the possibility that import or EU production arrangements might be changed if the price does not fall as it should. The circumstances under which this article might be invoked are undefined and the measures to be taken are not specified in sufficient detail. They should be.

2.4 Turning to the second consideration, there is no doubt at all that, if the market price of sugar actually falls under reform, consumers will benefit. There are two reasons for saying this.

2.5 First, there is intense competition among retailers. In pursuit of the lowest possible prices on the shelves, they are continually searching for ways to cut costs. This pressure is naturally felt by the suppliers to retailers, too, including the industrial users of sugar. It is inconceivable that retailers would not take the opportunity to reduce the prices of goods containing sugar as far as they could, were the price of sugar to fall.

2.6 The second reason for saying that the consumer sugar price would fall is that it has happened before. Between April 1996 and May 2000, the sugar price in the UK fell by 33.7% when the pound rose in value against the euro. The consequent impact on prices in the value chain was as follows (data from the Office of National Statistics).
UK price inflation for sugar, soft drinks and confectionery
May 1996 to April 2000

<table>
<thead>
<tr>
<th>Percentage change (1996–2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw sugar (as a crop)</td>
</tr>
<tr>
<td>Processed sugar (as an ingredient)</td>
</tr>
<tr>
<td>Soft drinks—producer prices</td>
</tr>
<tr>
<td>Confectionery—producer prices</td>
</tr>
<tr>
<td>Soft drinks—retail prices</td>
</tr>
<tr>
<td>Confectionery—retail prices</td>
</tr>
<tr>
<td>All retail prices</td>
</tr>
</tbody>
</table>

2.7 Processed sugar represents between 10 and 20% of the costs for a sugar user (from industry estimates). A 14% fall in the cost of processed sugar should therefore translate into a 1 to 3% fall in the cost of manufactured goods containing sugar, all other things being equal. The actual price cut was much greater, between 5 and 8%.

2.8 However, it should be pointed out that only 42% of the fall in the price of sugar as a crop was passed on by processors in a reduction in the price of sugar as an ingredient. Given that raw sugar amounts to two-thirds of the cost of producing sugar as an ingredient (from European Commission estimates), the price fall should have been 22% rather than 14%, i.e. more than 50% greater than it was. The stickiness in the price of sugar as an ingredient bears out, in black and white, the contention that competition among sugar processors is not as it should be.

3. THE PROPOSED ARRANGEMENTS FOR COMPENSATING EU PRODUCERS

3.1 The compensation arrangements for processors seem rather generous, given that they are not actually agricultural producers. By way of comparison, there has never been compensation for dairies and slaughterhouses after reforms in the milk and meat sectors.

4. THE CHANGES TO THE QUOTA ARRANGEMENTS

4.1 We have already explained the fundamental unfairness of the quota system and the way it stifles competition in the marketplace. We regret that the idea floated in the Commission’s communication of July 2004, that quota might be bought and sold by sugar processing companies across national borders, has been dropped. That would have gone some way towards encouraging and rewarding efficient production, but sadly this turned out to be politically unacceptable.

4.2 That leaves only two glimmers of hope for a competitive marketplace. First, there is the possibility in article 11 of the regulation that quota might be transferred from one processor to another within the same member state. It would be unwise to have much confidence in this option, though, because the rules for this in Annex V do not, as currently drafted, foresee new entrants into the marketplace, merely the reallocation of marginal amounts of quota amongst existing players. (Rules of this sort exist at present, in fact, but have rarely if ever been invoked.)
4.3 If there is no reform of the quota system to facilitate competition amongst EU producers, the only hope is going to be an increased level of imports. There are plenty of producers outside the EU ready and willing to supply the European market. Contrary to most people’s belief, however, there is nothing in the Commission’s proposal that will increase market access for countries such as Thailand or Brazil. It is possible that article 37 might be used to inject more competition into the EU market, as has been suggested in answer to a previous question, but no decision to that effect appears to have been taken.

UKISUG

September 2005

Memorandum submitted by The Biscuit, Cake, Chocolate and Confectionery Association (BCCCA)

EXECUTIVE SUMMARY

1. The Committee’s terms of reference are focused on the sugar beet-growing and processing, and cane refining, sectors. However, the health of the industrial sugar users (predominantly confectionery, etc and soft drinks) is of paramount importance to these other stakeholders. Together they take around 70% of UK sugar beet output, of which around half is for the biscuit, cake, chocolate and confectionery (BCCC) sector.

2. The BCCC sector has lost more than 20% of its workforce in the last five years, and the artificially high price of sugar in the UK and EU is an important factor in the loss of jobs and the shift of production to areas of lower sugar prices.

3. The Commission’s draft legislative proposals may be ‘too little, too late’ for the BCCC sector in the UK. Even if market prices fall to the reference price, there will probably be less competition in the processing sector rather than more, as the number of quota holders is reduced. As this Committee has itself previously noted, the quota system is the biggest stumbling-block to increased competition.

4. The proposed restructuring fund is excessively generous even by the Commission’s own calculations, and unfair in that it places the onus of compensating private shareholders on industrial users and consumers.

5. Unless, as a minimum, the price cuts are introduced earlier than October 2007, and quotas are made tradeable across national boundaries, the flight of jobs from the UK BCCC sector will continue and the domestic market for UK beet growers and processors will continue to be eroded. If quotas are not abolished or made tradeable, the UK Government should immediately trigger the competition inquiry recommended in these circumstances by the EFRA Select Committee in its 2004 report.

INTRODUCTION

6. The Biscuit, Cake, Chocolate & Confectionery Association (BCCCA) represents all the leading and many smaller manufacturers of biscuits, cakes, chocolate and confectionery (BCCC) in the UK. In all, the Association represents more than 90 British businesses. The sector as a whole employs some 60,000 people (though this number is falling—see below) and has annual consumer sales of around £8 billion. Companies contribute around £1 billion in respect of these products in VAT receipts to the Exchequer.

OVERVIEW

7. The BCCC sector was disappointed with the very modest reform proposals put forward by the Commission, even less radical than the Commission’s original Communication of July 2004. The Committee’s terms of reference do not explicitly focus on the impact of the proposals on industrial sugar users, but the fate of the UK sugar industry (growers and processors) is inextricably linked to that of their industrial customers, who buy 70% of their output (roughly half of which is accounted for by the BCCC sector). Even if these proposals do deliver a 39% price reduction (which is by no means certain) from autumn 2007, this will probably be ‘too little, too late’ to halt the loss and export of jobs from the UK, and hence the erosion of the domestic sugar market.

THE EXTENT AND TIMESCALE OF THE PROPOSED PRICE REDUCTIONS

8. The Commission’s proposal creates a reference price (at which sugar is expected to trade in the future), which is 39% lower than the present intervention price. However, the EU sugar market is not fully integrated at the EU level, but consists of a number of national markets. There will be a market price monitoring system, but the proposal gives no details as to how this will operate. It appears that these matters will fall to the EU Sugar Management Committee, which in practice means that decisions will be taken according to majority vote by the individual member state representatives. This does not bode particularly well for sugar users and those in the reformist camp, as the Committee is dominated by countries with predominantly producer and processor interests.
9. These individual national markets are a consequence of the national production quota systems. The small number of processors operating within the EU and effectively in national markets (which will be further reduced following the restructuring programme incentive) means that even a substantial cut in the support price will not necessarily be reflected in a reduction in market prices owing to tacit collusion which has already been demonstrated between processors. Indeed the possibility of efficient processors exiting the industry and leaving the less efficient in production (see paragraph 20) could result in poorer quality; less volume supplied to market; extra demand pressures leading to rising prices.

10. The exceedingly high price of sugar has contributed significantly to the loss of up to 16,000 jobs (more than 20% of the workforce) in the UK biscuit, cake and confectionery sector in the last five years alone. We are accordingly concerned over the protracted timetable for the implementation of proposed price reductions. There will be no effective price cuts before October 2007. The Commission’s proposals must be amended to return to the original July 2004 communication timetable i.e. real price cuts by July 2006 (rather than October 2007).

11. Export refunds are intended to bridge the gap between higher European and world raw material prices so that EU exporters of sugar-containing products can remain competitive in third country markets. The proposals do not say much about the mechanism for export refunds. The BCCCA welcomes the recognition that export refunds for processed foods (Non-Annex I) will be necessary, but it is not clear how they will be calculated. Will the new reference price act as a trigger in the relationship to world prices? Furthermore, if this is the case, will the calculation be on the full reference price or that net of the restructuring amount? This is particularly significant for sugar users/exporters, who will have to bear the burden of the restructuring amount while it is in place. Prices need to be stable or known up front, especially where contracts are being fixed a year ahead. The market does not want volatility.

12. Within the context of the WTO Doha Development Round the EU has already made the commitment to the ultimate abolition of export refunds. This means that as the latter disappear, the EU domestic support price for sugar must approximate towards world prices so as to allow EU exports of processed foods to remain competitive in third country markets.

**The Extent to Which the Proposed Reductions in Price will be Transmitted to the Consumer**

13. It is difficult to quantify the extent to which the proposed reductions in price, to the extent that they actually materialise, will be transmitted to the consumer. Research carried out by Agra CEAS Consulting for the European Commission (“Study on Price Transmission in the Agri-food Sector” (unpublished)) suggests that a price reduction is likely for sugar for direct (retail) consumption, particularly in view of the higher levels of competition in retail sales. In the case of sugar incorporated in processed products, which concerns our members, the impact of the reduced sugar reference price will depend on many factors, including the cost of other raw materials in the final product. However, the competitive nature of the processed food manufacturing industry is such that the reduced price will be passed on by manufacturers to retailers. Equally, several years ago when the price of sugar in the UK dropped significantly owing to exchange rate movements of the £ v €, the reductions in price of sugar at the farm gate were passed on by food and drink manufacturers to the extent that they had been passed on by the sugar processors.

14. UK-manufactured products are always competing against imported products which benefit from much lower sugar prices, so there will inevitably be downward pressure on the prices of British-made products.

**The Implications for UK Agriculture, with Particular Regard to Possible Alternative Land Uses**

15. The Commission’s proposal represents an opportunity to increase the competitiveness of the whole of the European sugar chain, including farmers, but this will depend on how the proposals are finalised and then implemented.

16. As the UK is one of the most competitive sugar beet producers in the EU, there could be scope for increased sugar beet production following the price reductions. Any reduction in the differential in the industrial sugar price between the UK and other member states will help ameliorate the position for BCCCA member companies. Increased competitiveness for BCCCA member companies will in turn help to maintain demand by them for other raw materials produced by other UK agricultural sectors (such as dairy ingredients and cereals).

17. Sugar beet will be eligible to be grown as a non-food crop on set-aside land and will also be eligible for the energy crop aid (“carbon credit”) of €45 per hectare. These measures will offer the opportunity for beet farmers to supply the bioethanol market, whilst sugar for the latter and for the chemical and pharmaceutical industries will be excluded from production quotas. These options, coupled with compensation to sugar beet farmers of up to 60% of the price cut, should mean that the majority of UK sugar beet farmers will want to continue.
The Proposed Arrangements for Compensating EU Producers

18. The EU sugar industry needs support to restructure, but both the objective and the mechanism of the proposed restructuring aid are highly questionable. The Commission proposes a restructuring fund which amounts to a sum in excess of €4 billion to help the sugar industry—to be financed by sugar users and consumers through a levy system.

19. The proposed restructuring fund is excessively generous, will delay price reductions and will mean that industrial users and consumers of sugar are paying to compensate private shareholders in other countries. The restructuring fund must be remodelled to reduce the burden on industry and ultimately consumers.

20. The scheme has been made deliberately attractive to persuade those non-reformist member states to accept reform ie it is the political price to secure agreement. The scheme will last for four years and is particularly generous in the first year, at €730/tonne. Commission figures suggest that the average cost of closing down a factory is around only €668/tonne. The intention is that inefficient sugar processors will drop out and leave the efficient in the market. However, it is possible that the efficient could choose to be bought out (the financial returns are very attractive) and leave the inefficient behind (see paragraph 9), with the possibility of further buyout funding therefore being necessary in later years. It is unclear as to how the amount for the restructuring fund has been calculated, but it has been suggested that it is worth at least €360,000 per sugar processing employee in the EU.

21. The proposal to compensate private shareholders of sugar refiners for loss of revenues and profits is, in any case, wrong in principle. Restructuring aid to less competitive sugar processing plants in order to retrain workers and diversify into other product markets could be justified, if managed in a fair and transparent way, but the financial aid offered in this package is much more than that required to meet this objective.

22. This levy would seriously harm competitiveness, exports and jobs in the European sugar using industries, which include a high number of SMEs, for which sugar represents a significant raw material cost. In the initial years of the reform, these sugar users are likely to end up worse off than under the current regime, since they will have to pay the restructuring tax to benefit other, larger, businesses in another sector of the supply chain. This cannot be equitable, or sound economics.

The Changes to the Quota Arrangements

23. The proposal to leave the quota system untouched is unacceptable and potentially very damaging for UK manufacturing employment. If production quotas are to be retained, the Commission’s original proposal to make quotas tradeable across national boundaries must be reinstated (which we believe would benefit all UK stakeholders).

24. The sugar quota system will be maintained, but existing A and B quotas will be merged into a single production quota. There will be no compulsory quota cuts. Furthermore, to prevent a sharp cut in production in those countries currently producing non-quota C sugar, an additional amount of 1 million tonnes will be made available against a one-off payment corresponding to the amount of restructuring aid per tonne in the first year. The limit of 1 million tonnes, coupled with the provision in Article 10(2) for the possible downward revision of production volumes in 2010, presuppose that future EU production will contract. However, whilst this may be the case, there should be provision to allow for expansion, should there be an increase in production of sugar incorporated in food products for sale on both the EU and export markets.

25. The reform proposal would leave the national quota system in place until 2014–15 and there is no provision for a mid-term review. The quota system stifles competition by isolating each national sugar market, and allowing the few large processing companies that dominate to collude and raise prices. This will continue after the reform and the situation will even be exacerbated by the likelihood that national quotas will be retained by an even smaller number of sugar processors.

26. The retention of the national quota system will reduce manufacturing of biscuits, cakes, chocolate and confectionery in the UK, as a recent Agra CEAS Consulting Report (commissioned by the BCCCA) suggests. The report highlights the loss of jobs; reduction in volume of production; movement of production out of the UK; and the erosion in the balance of trade situation over the last five years.

27. The report finds specifically that:
   — up to 16,000 jobs have been lost in the BCCCA sector in the last five years (a fall in employment of more than 20%);
   — there has been a fall in production of BCCCA products in the UK in the last five years (sugar confectionery − 11.6% against “EU 15” + 7.8%; biscuits − 6% against “EU 15” 0%; chocolate − 4.5% against “EU 15” + 5.2%);

A healthy positive balance of trade in BCCCA products has been eroded to the point where for the last couple of years the UK has been importing more than it exports.

28. There has been a trend towards concentration in the BCCCA sector through merger and acquisition and towards divestment of production facilities out of the UK, which will persist if there is no reform of the sugar regime. BCCCA members are more readily able to produce for the UK market in another EU member state where it is more economic to do so (e.g. where the cost of sugar for industrial use is cheaper). This has led to a series of divestments with production being moved outside the UK, further reducing employment in the sector.

29. One of the key contributory factors to this deteriorating situation is identified in the report as the existence of the production quota system (“... the only reform options which allow an improvement in the competitive nature of the sugar supply chain are those that result in the elimination of production quotas.”).

30. The iniquities of the quota system were identified by this Committee in its Twelfth Report of 2003-04: “Competition will be increased more by abolishing quotas than through any other policy change. However, if the new sugar regime does not contain provision for eliminating production quotas, we recommend that the competition authorities conduct an investigation into the UK processing industry” (paragraph 52). In its response, the Government said that “… increasing competition will be a major UK negotiating objective and if sufficient progress is not made we agree that the competition authorities should consider the case for an investigation into the market”.

31. The Commission’s earlier suggestion (in its Communication of July 2004) that quota transfers should be permitted across member state boundaries would be a reasonable second best to outright abolition. However, even this modest proposal has been dropped from the draft legislative text which is less market-oriented than the proposal of July 2004 (quotas are retained and are not even tradeable). Quota transfer would help to halt the flight of manufacturing jobs out of the EU.

32. If quotas are not abolished or made tradeable, the UK Government should immediately trigger the competition inquiry recommended in these circumstances by the EFRA Select Committee in its 2004 report.

**THE POTENTIAL IMPACT OF THE REFORMS ON UK-BASED SUGAR BEET PROCESSORS AND CANE REFINERS, AND THE LONG-TERM CONSEQUENCES FOR THEIR INDUSTRIES**

33. The continuation of production quotas will effectively maintain barriers to entry for new sugar-refining companies. The current differential in the price of industrial sugar between the UK and EU markets, and its volatility in the UK, will remain. This lack of competition in the EU sugar supply market will ensure a continued downward spiral for the BCCCA sector.

34. The fortunes of UK-based sugar beet processors and cane refiners are inextricably linked to those of UK industrial sugar users. 70% of all UK processed/refined sugar is sold to UK food and drink manufacturers. As such, the impact of the sugar reform proposals on UK industrial sugar users must not be ignored by the former stakeholders.

35. Competition in the market is vital for the future of industrial sugar users, but may not materialise given the restricted scope of the proposals. The reform must create the right regulatory environment for competition to flourish and end any apparent price collusion in the EU sugar supply market. Competition in the sugar supply sector will benefit both producers and consumers and increase overall economic welfare. There is no true competition in the EU sugar industry under the current regime, which is clearly demonstrated by the fact that EU buyers are paying 8% to 22% more than the institutional price for their sugar, in spite of a situation of surplus supply. It is crucial that effective measures are put in place to prevent sugar processors from colluding on prices. This is why it is important to increase alternative supply sources, in particular sugar imports and isoglucose. In this regard, the proposal to open up the market to further supplies from third countries when Community prices have been substantially disturbed (recital 34; article 37) is welcome, but it is doubtful whether it will have much impact in practice as the EU Sugar Management Committee, the body likely to discharge this function, is dominated by countries with grower and processor interests (see paragraph 8).

Biscuit, Cake, Chocolate & Confectionery Association (BCCCA)

*September 2005*

**Memorandum submitted by Cadbury Schweppes Plc**

1. Cadbury Schweppes are grateful for the opportunity to be able to respond to this inquiry and welcomes the interest of the EFRA committee in the proposed reform of the EU sugar regime. We’re particularly encouraged that the committee continue to include the views of all UK stakeholders in their inquiries and look forward to hearing its findings.
EXECUTIVE SUMMARY

2. We welcome the European Commission’s reform package but believe that, ultimately, the EU must abolish all quotas for sugar production. Our main concern remains the lack of competition in the EU market.

3. Competition in the market is needed, but we are concerned that it may not materialize from these proposals. Under the current regime the lack of competition in the EU sugar industry is clearly demonstrated by the fact that we pay 8% to 22% higher than the institutional price for sugar in spite of a situation of surplus supply. Effective measures are needed to increase competition such as increasing alternative supply sources, in particular sugar imports and isoglucose.

4. While we are grateful the Commission has finally acknowledged this problem and attempted to address this issue in Article 37 of its proposed reform, we do not believe the provision goes far enough. In particular, we have concerns regarding what the Commission will do if sugar prices remain at their current (high) level, rather than falling or rising dramatically.

5. We do not support the idea that sugar users should have to pay for the re-structuring of the sugar regime. In effect, this means we are being punished twice: firstly by high sugar prices as a result of the EU quota system for sugar, and secondly by the levy to initiate the reform process that is so desperately needed.

6. We are particularly concerned about the lack of clarity in the Commission’s proposals with regard to export refunds.

WHO WE ARE

7. Cadbury Schweppes is the leading EU headquartered beverage and confectionery company. We are number one in sugar and functional confectionery and the world’s third largest soft drinks company.

8. Our well-loved brands across Europe include Cadbury Dairy Milk, Orangina, Apollinaris, Hollywood, 7UP, Schweppes, Halls, Poulain, Trident and Wedel. We have major operations in the UK, Denmark, France, Germany, Poland, Spain, Belgium, Greece and Ireland.

OUR CURRENT SITUATION

9. Industrial users account for 70% of EU sugar production and are the main customers of EU sugar beet farmers.

10. Cadbury Schweppes purchases sugar on the EU market in Spain, Greece, Belgium, Germany, Portugal, Ireland, Italy, France, Poland and the UK. As a result of the sugar regime, we often pay more than three times the world price for sugar, making us less competitive.

11. We recognise that changes to the current sugar regime will have significant impacts on both EU and ACP/Indian sugar farmers. For this reason, we have always supported an evolutionary approach to give all parties time to adjust.

THE EXTENT AND TIMESCALE OF THE PROPOSED PRICE REDUCTIONS

12. The Commission’s proposal creates a reference price at which sugar is expected to be traded in the future, 39% lower than the present intervention price, but there is nothing to suggest that this will have any impact on the market price for sugar—the price we as users pay. At present we pay on average between 8–22% above the intervention price for sugar due to the lack of competition in the current regime.

13. Given that the Commission’s proposals maintains the national quota system the proposal therefore needs further measures to ensure that the proposed reference price level is actually reflected in the marketplace. Articles 4 and 37 in particular need greater clarity.

14. We are concerned over the protracted timetable for the implementation of proposed price reductions. Effectively, there will be no price cuts before October 2007. The Commission’s original July 2004 communication timetable proposed real price cuts by July 2006 (rather than October 2007).

THE EXTENT TO WHICH THE PROPOSED REDUCTIONS IN PRICE WILL BE TRANSMITTED TO THE CONSUMER

15. It is difficult to quantify the extent to which the proposed reductions in price, to the extent that they actually materialise, will be transmitted to the consumer.

16. The impact of the reduced sugar reference price on the price of a sugar-containing product will depend on many factors, including the cost of other raw materials in the final product.

17. The confectionery industry is highly competitive. Following the publication of the European Commission’s proposals in July 2005 some retailers contacted our sales representatives to renegotiate 2005–06 prices under the belief that our raw materials prices had been reduced. We operate in this fiercely competitive market but are not able to buy sugar in a comparably competitive market.
18. In addition, our UK-manufactured products are always competing against imported products which benefit from much lower sugar prices, so there is often downward pressure on the prices of British-made products.

**Implications for UK Agriculture, with Particular Regard to Possible Alternative Land Uses**

19. The Commission’s proposal represents an opportunity to increase the competitiveness of the whole of the European sugar chain, including farmers, but this will depend on how the proposals are finalised and then implemented.

**The Proposed Arrangements for Compensating EU Producers**

20. The EU sugar industry needs support to restructure, but we do not support the idea that sugar users should have to pay for the re-structuring of the sugar regime—in effect, this means we are being punished twice: firstly by high sugar prices as a result of the EU quota system for sugar and secondly by the levy to initiate the reform process that is so desperately needed.

21. The intention of the compensation arrangements is that inefficient sugar processors will drop out and leave the efficient in the market. However, it is possible that the efficient could choose to be “bought out” by the compensation and leave the inefficient behind, with the possibility of further buyout funding therefore being necessary in later years.

**The Changes to the Quota Arrangements**

22. We would like to see the abolition of all quotas and are disappointed that the proposals leave the EU sugar regime’s quota system untouched.

23. Given that the Commission’s proposals maintain the national quota system the proposal therefore needs further measures to ensure that the proposed reference price level is actually reflected in the marketplace. Articles 4 and 37 in particular need greater clarity.

24. The limit of 1 million tonnes to prevent a sharp cut in production in those countries currently producing non-quota C sugar, coupled with the provision in Article 10(2) for the possible downward revision of production volumes in 2010, presuppose that future EU production will contract. However, whilst this may be the case, there should be provision to allow for expansion should there be an increase in production of sugar incorporated in food products for sale on both the EU and export markets.

**The Potential Impact of the Reforms on UK-based Sugar Beet Processors and Cane Refiners, and the Long-term Consequences for their Industries**

25. 70% of all UK processed/refined sugar is sold to UK food and drink manufacturers. The fortunes of UK-based sugar beet processors and cane refiners are therefore inextricably linked to those of UK industrial sugar users.

26. There is no true competition in the EU sugar industry. This is clearly demonstrated by the fact that we are paying 8% to 22% more than the institutional price for sugar, in spite of a situation of surplus supply. It is crucial that effective measures are put in place to stimulate competition such as increasing alternative supply sources, in particular sugar imports and isoglucose and opening up the market to further supplies from third countries when Community prices have been substantially disturbed (recital 34; article 37).

27. More competition in the EU sugar market should be good for UK sugar processors as well as for sugar users. Our UK supplier recently stressed to customers that they consider that the UK sugar processing industry is one of the most cost efficient and innovative producers in the EU and is well placed to adapt to change.

28. We are particularly concerned about the lack of clarity in the Commission’s proposals with regard to export refunds and the effect this could have on our competitiveness. These refunds are intended to bridge the gap between higher European and world raw material prices so that EU exporters of sugar-containing products can remain competitive in third country markets.

29. The proposals do not say much about the mechanism for export refunds. Although we welcome the recognition that export refunds for processed foods (Non-Annex I) will be necessary, it is not clear how they will be calculated. Will the new reference price act as a trigger in the relationship to world prices? Furthermore, if this is the case, will the calculation be on the full reference price or that net of the restructuring amount? This is particularly significant for us as exporters and impacts how and where we produce product for non-EU markets.

Cadbury Schweppes plc

*September 2005*
Witnesses: Mr Chris Tyas, Group Supply Chain and Systems Director, Nestlé UK & Ireland and Chair of the Biscuit, Cake, Chocolate and Confectionery Association (BCCCA) Commercial Committee, Ms Anna Lucuk, External Affairs Manager, Cadbury Schweppes plc and Mr Richard Laming, Secretary, UK Industrial Sugar Users’ Group and Public Affairs Manager, British Soft Drinks Association, examined.

Chairman: One or two further familiar faces in reaction? In other words, you may not become as very long title: Group Supply Chain and Systems might see a reversal of your 16,000 job loss?

Lucuk, Witnesses:

Q82 Chairman: Which sectors have lost the most?

Mr Tyas: If we could start on that, there are two really big pieces of evidence which have suggested that it has put us at a disadvantage and in particular that it has harmed British manufacturing interests. The first is that our industry was for many years a net contributor to the balance of payments and then in 2002 it slipped into a debit situation of some 20%, which has worsened in fact in the three years since then. Secondly, a piece of independent research has demonstrated that our industry has lost something like 16,000 over the course of the last five years and that the very high price of sugar, which I can just remind other members of the Committee who are not so experienced in this area as yourself means that we pay three times the world price in the UK and 10% more than anywhere else in Europe, has been the major contributor to the loss of those jobs.

Chairman: Which sectors have lost the most? Perhaps I could ask Anna Lucuk. Have you reduced your labour force in Cadbury Schweppes as a direct result of uncompetitive prices?

Ms Lucuk: The cost of sugar has been one of the factors which we have taken into consideration when deciding where to relocate production lines within the Cadbury Schweppes family. We do have production facilities all across the world. It is only one element and yes, we have closed a number of lines in the last few years. In Chesterfield, for example, we have relocated sugar confectionery to other parts of the UK, but also to Eastern Europe. It is one factor, as is the upgrade of facilities, the cost of labour, the cost of distribution.

Chairman: Let me turn the situation round. The underlying proposal the Commission are suggesting is a 39% decrease in the price of sugar and roughly speaking that is what would be passed on to the users of it. Is there going to be any kind of positive reaction? In other words, you may not become as competitive, because the price in Europe would still be above the world price, but does it restore some of the competitiveness? Would you say long term we might see a reversal of your 16,000 job loss?

Mr Tyas: Let me make it clear. We reluctantly support the reform package which is in front of us at the moment, but probably because it is the only show in town and it certainly is too little and too late. It is certainly not as good as the proposed reform package which the Commission put out in the first place some 12 months or so ago. If I may take each of your points in turn, you said it would result in a 39% reduction. We would certainly hope to see that, but it is by no means clear that that will happen. We already see the situation that this market does not work in a transparent manner. You can have a complete glut of production and indeed in the last month we have seen that the EU has taken the decision to dump 1.9 million tonnes of excess sugar from Europe onto the world markets, contrary to the WTO ruling, yet the price in Europe is still way above the support price. So we are concerned, and article 37 refers to it in the proposals, that is not strong enough and that even these proposals will not see the price inside the European Union drop even to the prices which are being suggested. Even if they were, they will still be well above what is paid outside the EU. If I might make one further point on that, we are also concerned that without the ability for British farmers and British processors to buy quota from other less competitive parts of Europe, then the price in the UK will still remain above that of the rest of Europe.

Chairman: We are going to come on to talk about where some of the price changes go in a minute. Given the doom and gloom scenario, I just wonder why you are still here. You must still be making some profit in terms of your activities in the United Kingdom, notwithstanding the current high price of sugar. You are making a profit, are you not, in Nestlé in the United Kingdom?

Mr Tyas: We still are, but what we are concerned to see, rather like Ms Lucuk’s comment, in representing the UK interests as a UK manager, is that we have the best prospects for manufacturing to continue in this country rather than the products to be made abroad.

Chairman: Let me just ask about the vulnerability factor and this business of production abroad. Anna Lucuk was kind enough to indicate that some confectionery production had gone to Eastern Europe as far as Cadbury Schweppes were concerned. What are the vulnerable sectors to further changes in location of production if in fact your industry does not get the kind of price change you really want? What are the long-term prospects?

Ms Lucuk: One vulnerable area would be the products we are still currently exporting and we have seen a deficit in the balance of exports and imports
of finished products. One area which may be a vulnerable area in the proposals, if the export refunds we receive which compensate us to a degree for the high price of sugar that we pay are eliminated, if they are calculated not to take account of the fact that the market price may not come down in line with the reference price, that would certainly be a vulnerable area for remaining exporters of our sector.

Q87 Chairman: Is it going to be cakes, biscuits, confectionery, soft drinks? In the pecking order what are the ones which could go?

Mr Tyas: I perhaps alluded to it in answer to the Chairman’s question, but if you look at the market there are many features of this market which are very odd. For example, the price in the UK is 10% higher than the rest of Europe, which does oddly seem to correspond to roughly the cost of bringing product across the Channel from other producers in continental Europe. Secondly, you have a market which is vastly oversupplied. You go back to 1.9 million tonnes being dumped just the other month on the world market and yet the price can be held significantly above the support price within Europe itself. Then, one of your colleagues made the point in the previous set of evidence, both of the major sugar processors have been fined in recent years for price fixing. The third point, which I also alluded to previously, is that we believe that situation will only get worse if there is not the transferability of quota, if there is not the opportunity for the competitive farmers and processors in the UK to be able to buy quota from the uncompetitive parts of Europe like Greece or southern Italy. I always rather liken it to whether we would really see subsidies to wine growers in Lancashire to grow wine to compete with southern France and Italy. It just seems madness.

Mr Laming: Across the range of those products; it is across the range. That is what we have seen in the last five years in the biscuit, chocolate, cake and confectionery sector; it is across the range. What we fear is that that will continue. There is no reason to suppose it will be biscuits and not cake or anything like that. It looks like across the range, if the sugar price is not actually brought into some kind of a balance in the marketplace so giving us access to more competitive markets. On the question of soft drinks, the big news in soft drinks actually is the switch from drinks with sugar to drinks without sugar. Consumption of drinks with sugar in this country is actually falling and it is rising in the diet area. I would suspect that part of the reason for that is the price.

Q88 Sir Peter Soulsby: May I just follow the point you were making there? You have described the price of sugar as an important factor in the loss of jobs and so on. You have also acknowledged that it is not the only factor. I wonder whether it is possible to quantify the extent to which the cost of sugar is a significant part of manufacturing costs. Do you actually have some figures?

Mr Laming: Yes, we have. It is the biggest single input in raw material for soft drinks and for many aspects of confectionery. We have presented data to Defra, and we could supply that to you, on varying finished output from as low as 5% to as much as 60% of the raw material cost of a product is sugar, so it can be quite significant indeed from the point of view of manufacturing.

Q89 Sir Peter Soulsby: You have heard what Tate & Lyle said to us earlier on and I just want to pick up a couple of quotes from your evidence to us. You said “... given that the number of sugar processing businesses is likely to be reduced by up to two thirds, the extent of tacit collusion is likely to grow”. Those are fairly strong words about others from whom we have heard. You also say “... further measures are needed to ensure that sugar processors are forced to compete with each other rather than permitted to operate in a partitioned and uncompetitive marketplace”. That is a very different impression from the one we have got from Tate & Lyle. Would you like to say a little more about why you think that is likely to happen and why what we heard earlier on is not perhaps a full reflection of what lies ahead?

Mr Tyas: I believe that one point we would like to see as a result of this process is that if the recommendations do go through with no ability for this buying of quota outside the country, transferability of quota, then your select committee at its last hearing did recommend that the competition authorities should look at the situation in this country. We really firmly believe that if the proposals go through on this basis with no transferability of quota, if British industry is to compete, then that review by the competition authorities has to take place.

Q90 Lynne Jones: Your remarks about the analogy with producing wine in Lancashire would imply what I had always thought, that the reason certain parts of the EU were uncompetitive was because of climate conditions making their farmers, whereas
representatives from Tate & Lyle implied that it was not just that, it was about their processing. If it is primarily climatic, then you cannot do anything about it. If it is about processing then you could improve your efficiency there and perhaps, on the basis that each country ought to have security of its own supply or that we should not be shipping sugar around unnecessarily, if it is relating to processing, should not at least part of the approach be to try to improve the productivity of processing in those countries?

Ms Lucuk: What you are saying is absolutely right. In some countries it is about the productivity of the yield, the actual growing of the sugar beet, but I have some examples from our sugar purchasing department that when we bought sugar in Ireland, for example, up until five years ago the processing industry there was not computerised and that is compared with the UK processing industry which has always been ahead of its time in terms of efficiency and making cost efficient savings and increasing their productivity using every part of the sugar beet processing process to get returns back for their industry. So it is in some areas and you might expect that Ireland had the right climate; if we are talking about that basin in northern Europe, to be amongst the most efficient producers. Obviously there are less efficient producers but I think you will find that is a factor in some of the processing industries. Similarly in Poland the new processing industries which have gone into the country make great strides to build modern plants, close down inefficient plants, but you will see that the state-owned processors have not done that and will suffer as a result of not being able to compete against the more efficient processors.

Mr Tyas: Yes; as were British Sugar.

Q95 Sir Peter Soulsby: You are saying that it is still going on. Is it fair to say that when you describe it as “tacit collusion” what you are really saying to us is that they are just being a bit more careful now to cover their tracks?

Mr Laming: “Tacit collusion” is something different. I do not want to say whether or not that is true but “tacit collusion” is something noticeably different. It rises from the structure of the market itself, not from any individual culpable act. That is the point. It is inherent in the current structure of the regime and that is what needs to be addressed. There may in addition be other stuff, but I could not say anything about that because I do not have any evidence for it.

Mr Tyas: That is why the competition authorities should look at the situation.

Q96 Mr Rogerson: While we might have points of disagreement with the processing industry, one thing which we could draw from this is that you both agree that moving to a real genuine market, the sort of thing we were hearing from our last witnesses would be good for their business, essentially would also be good for yours.

Mr Tyas: Yes.

Q97 Mr Williams: One point on the quota. You said that you would hope that processors in this country would be able to buy quota because they are more efficient.

Mr Tyas: Yes.

Q98 Mr Williams: And that would be more likely to guarantee the price reduction.

Mr Tyas: For the farmers and the processors; yes.

Q99 Mr Williams: My understanding was that the recommendation from the Commission was that that should not take place, but that there should be decommissioning.

Mr Tyas: Yes; in the first recommendations which the Commission made, which this select committee heard before, they were recommending that there was transferability of quota between countries. Regrettably this revised version has taken that away and we find that a very retrograde step.

Q100 Mr Williams: We heard from Tate & Lyle that over one million tonnes of quota were available. Can you explain?

Mr Laming: Because the opportunity for European producers to export so-called ‘C’ sugar is going to disappear, because as the price falls the cross-subsidy for that will disappear, as part of compensation for that those countries which are doing a lot of that right now are going to be given the opportunity to increase the production of sugar for the EU market roughly in proportion to their export markets right now. So in the UK it is now about 80,000 or 90,000 tonnes.

Mr Tyas: The perverse thing is that the Greek sugar producer gets a proportion of that one million tonnes just as much as the British farmer does and the British
farmer cannot buy any of that Greek one however uncompetitive and inefficient the farmer or processor may be.

Q101 Mr Williams: Under the present recommendations then you seem very unconvinced that there is going to be a fall in the price of sugar which has been anticipated by the Commission. If there were that fall, would there be any guarantee that that reduction would be passed on to the consumer?

Mr Laming: There are two reasons to suppose that it would. First of all, think about the retail environment, intensely competitive and any opportunity that retailers have to reduce prices on their shelves for consumers they take. Already manufacturers of soft drinks and confectionary are being asked how much their prices are falling right now because of the reform of the sugar regime. We have to say that actually it has not happened yet, but we are already being asked those questions now. There is very good reason to think that when it finally does come through, the prices will fall. Secondly, it happened before. Between 1996 and 2000 the price of sugar beet fell in this country by 33% and the evidence from national statistics shows the way in which that price fall was transmitted through the value chain and did indeed reach the shelves. The biggest blockage was the price of processed sugar that we buy as a result of the regime. That price did not fall as much as it should have done.

Q102 Mr Williams: Experience from chocolate eaters is that when the price of cocoa falls the price of chocolate does not fall, as last year.

Mr Tyas: Mr Laming has made the point that when sugar prices did fall, which is the largest single ingredient, far more than cocoa, then the price did fall on the previous occasion. The one key point we are concerned about is that prices will move, but what we are more concerned about is the competitiveness of British manufacturing industry. We are not asking for a subsidy or anything like that, we just want a level playing field so that we can compete on the same terms in factories up and down with those in continental Europe or even outside the EU on the edge of Europe. That is really what we are looking for: just a level playing field and a level field of competitiveness.

Q103 Mr Williams: If there were a substantial reduction in sugar would it replace or displace artificial sweeteners in some of the products your companies make?

Mr Laming: I think by now that the public focus on diet and health is such that people are making choices for a wide range of reasons. These days, certainly the experience in the soft drinks industry is that the taste and the functionality and the effect of calories are taking over from price as the thing which drives consumers. So we do not believe that a fall in the price of sugar would have any impact on the consumption; indeed consumption of sugar is falling right now.

Q104 Mr Williams: One of the reasons for using artificial sweeteners is because they are cheaper than sugar. I am asking whether, if the price of sugar fell, that would displace or replace artificial sweeteners?

Mr Laming: No. From the point of view of soft drinks that would not happen. That shift in public attitude towards sugar and sweeteners is irreversible, particularly in the state of the debate about public health of which we are all aware right now.

Q105 Mr Williams: Are you saying that a reduction in the price of sugar would not lead to an increase in its consumption?

Mr Laming: No, the price of goods containing sugar has fallen in real terms in recent years anyway and consumption is not going up.

Q106 Mr Williams: So demand for sugar is relatively inelastic and people have as much sugar as they want?

Mr Laming: Yes.

Mr Tyas: We believe that the demand for sugar is more based upon the competitiveness of the product made here. If we can go back to a situation where we are exporting 280,000 to 290,000 tonnes from this country, as we were only five years ago, that is going to be the largest driver of demand for sugar in this country. It is industrial sugar users, such as those represented by our companies here today, who take 70% of all sugar which is grown in this country. If we have a thriving manufacturing industry in this country, then that is going to generate the biggest demand for sugar grown here.

Q107 Chairman: May I just explore with you paragraph 2.8 of your evidence and also the table at paragraph 2.6. This very clearly shows that when the raw sugar price fell you went from 33.7% down in the sugar prices did fall, which is the largest... 2.8. Could you try to explain to us why the fall in the price of raw material is not visited in the processed sugar price? The reason I ask that is that I would imagine both Nestlé and Cadbury Schweppes would consider themselves to be good buyers of raw material. If you saw that the raw sugar price had fallen by that, how is it that your buyers have allowed the processing industry to get away with a disproportionately small fall in the price of the material to you?

Mr Laming: This is exactly the point about tacit collusion and market share which we mentioned earlier. There is nowhere else to go.

Q108 Chairman: I suppose there is nowhere else to go unless you go to it. You said to us that there was a 10% price differential between UK sugar and that from the continent, roughly ascribing to the cost of transport. However, you are big buyers. If you went along to continental suppliers, could you not do a deal with them? The same circumstances must apply to them. They might have been willing to give up a bit more in terms of margin increase from the processor side to get your business.

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Mr Tyas: Let us say we go to another country. In every country the sugar produced already has a customer. If we go to another Member State and buy the sugar there, that means any sugar they export to the UK is sugar they are taking away from existing customers in each Member State. That is the whole point of the quota.

Q109 Chairman: Because it is a zero sum game.
Mr Laming: Exactly. The whole point of the quota system constrains the production of sugar. That is the point.
Mr Tyas: The way you have described the market is very much the way you would expect it to behave. This market does not behave like a normal transparent market and you come back to the amount which is dumped as sugar and the apparent reluctance, which is referred to in the Swedish study, of companies to transfer sugar across borders. Then the point you began with that the price is still equivalent to the cost of transport across the Channel.

Q110 Chairman: Are there any markets outside the European Union which have over time, to your knowledge, demonstrated a proper relationship between the rise and fall of a market price for sugar and the price of the processed product?
Mr Tyas: If you look at the world price of sugar, which some of our companies outside the EU are able to buy, then it does react very much in that way, but also taking into account supply and demand, as indeed Oxfam and the other NGOs point out, the fact that the European market is not open to many producers of the world means that to a large extent even the world market does not work in a proper and free manner.

Q111 Lynne Jones: You did not answer the question about why chocolate prices did not fall when cocoa prices fell.
Mr Tyas: In many cases we would argue that they did; certainly relative to other costs which increased over that period. The point we were making, more importantly than that, was that the balance of what we were really concerned with here was the strength of the manufacturing industry, whether the products ended up being made in this country or made somewhere else.

Q112 Lynne Jones: You say that the retailers put pressure on you to reduce your prices when your commodity prices go down.
Ms Lucuk: It may be a bit simplistic to say that a drastic fall in any commodity price would have an immediate impact on retail prices and it is retail prices rather than the price at which we sell to the retailers. At any one time different raw materials may be going up or down; you may have high cocoa prices, lower oil prices which impact on packaging and distribution for example.

Mr Tyas: May I go back to the point Mr Laming made. When the sugar prices did fall before then it was transmitted through and there is very strong evidence that it was transmitted through to the retail price.

Q113 Lynne Jones: In relation to developing countries, obviously it is wrong that they should not have access to our markets. On the other hand, they should not have unnecessary tariffs; on another hand, if you are shipping these you do have environmental implications. Obviously there is an issue of local supply versus supply coming across the world. Would you care to comment on that and should we have some kind of a carbon tax, not tariffs preventing access to our market, but some kind of taxation to reflect the impact on the environment of shipping bulk items across the world?
Ms Lucuk: We would find it difficult to argue for that, given that the LDC countries are expecting to enter the EU markets under the Everything but Arms Agreement. As the agreement stands at the moment, it would further prevent that necessary access which both they and we require in order to make the European sugar market more competitive and fairer on all sugar producers.

Mr Tyas: One of the arguments which might well come into play here, if one were looking at the balance between beet and cane sugar is that from a processing point of view significantly lower amounts of energy are involved in processing cane than are involved in processing beet. Inherently cane is a more efficient way of producing sugar than is beet in certain countries. That might well be offset in some respects by the transport costs involved, but it is still, in terms of the world economy, the most efficient way of producing sugar.

Q114 Lynne Jones: You say that the proposed restructuring is excessively generous.
Mr Tyas: Yes.

Q115 Lynne Jones: What would you do to ensure restructuring and to ensure that quota is relinquished?
Mr Tyas: We find three things iniquitous here. Firstly the level of restructuring, €360,000 per job was the estimate by the EU, which, if you compare it with anything else, is generous in the extreme. Secondly, what is also rather perverse is that it is actually the manufacturers, the customers and the consumers who are paying for it. If we look at anything else, such as the EU reform of slaughterhouses or anything like that, the supermarkets, for example, do not pay for the restructuring costs there. That also seems rather perverse to us. Then we come back to this point which is probably one of the ones we feel most strongly about: the fact that there is no transferability of quota between the different countries, therefore there is no movement to the most efficient farmers and the most efficient processors of beet, who are undoubtedly here in Britain and northern France.

Q116 Lynne Jones: So what are your proposals? What would you do?
Mr Tyas: What we would want to see is a return to the proposals which were made the first time by the European Commission and which this Committee looked at in its previous study 12 months ago, and they occur in most industries, that is restructuring cost being carried by the industry concerned.

Q117 David Lepper: One question on this issue of whether price reduction is passed on to consumers. There was an article in The Independent on Sunday in June this year headlined Cadbury’s £70 million in sugar coated savings. I am sure you saw it. The journalist writing that article said that Cadbury Schweppes’s management have claimed that savings would be passed on to consumers. Do Cadbury Schweppes stand by that?

Ms Lucuk: We were one of the companies, two days after the Commission released its proposals on 22 June, on 24 June, whose sales teams both in France and in the UK were contacted by major retailers to whom we sell, they are our customers, obviously assuming, as the journalist did, that we had sugar reform and we had a 39% reduction in the price that we pay delivered to our factory. That is the competitive nature of where we operate. We sell to the retailers, we compete among ourselves and there is no way a retailer will let anything past them should a saving of that percentage be possible. I am sure the Committee are aware of the power of the retailers.

Q118 Lynne Jones: If their customers in the supermarket want to buy Cadbury’s Dairy Milk, they are going to want to supply them, are they not? They are not going to say “Sorry, because we have not done a deal with Cadbury we are not going to give you enough Fruit and Nut”.

Ms Lucuk: Absolutely. We want those retailers to stock our products, so we have an incentive to do the best deal possible and better than Nestlé and better than Master Foods, so that it is our products which are more appealing to consumers when they go into the supermarkets.

Mr Tyas: Our case here today is that we want those products to be manufactured in this country with British jobs, not to be made elsewhere because the largest material price is more expensive in this country.

Q119 Patrick Hall: Could we just quickly look at the issue of security of supply? You have already explained that cane sugar has far lower production costs than beet. Is the source of sugar from beet maintained because it is there or because of the security of supply in Europe argument? How serious are those arguments about security of supply?

Mr Tyas: May I answer your question in two parts? It is maintained because quota maintains it; that is the reason why and that is the reason why the relative proportions of cane and beet exist in Europe. Were those proportions to change, then all of our companies are convinced that with the world market as developed as it is today the sources of cane supply and the assured sources of cane supply could be brought to this country just as easily as beet is today. The proportions you refer to are no result of the market, only of quota.

Q120 Patrick Hall: So in terms of strategic concerns about supply, you seem to be discounting that. That may or may not be an argument for the complex quota and subsidy system.

Mr Tyas: There is a plentiful world supply of sugar. There are many suppliers outside of Europe who would love to have access to European markets and at the moment they are prevented from doing so.

Q121 Patrick Hall: I suppose they would also like to be able to add value in their own countries by refining it there.

Mr Tyas: Yes and we would encourage that.

Q122 Chairman: I should like to turn to one thing about export refunds in conclusion. We had some evidence from a lady called Joan Noble who very kindly wrote to us and briefed us. I shall just read you a few sentences of what she said which encapsulates her concern. “However, there is a real concern for food and industrial manufacturers within the EU looking to compete on the world market”. She says that when there is no longer the possibility of the payment of export refunds to make up the difference between the world and EU prices, EU manufacturers may be subject to unfair competition from third country manufacturers while there is still a rigid system of price support afforded to the sugar producer. Would you like to comment on her expression of concern for your industry?

Ms Lucuk: We absolutely agree. We receive export refunds for the high price of raw materials such as dairy products and sugar which we purchase within the EU. When we export to markets such as the US and Canada we have two concerns with the current proposals as they stand: obviously the commitment of the European Commission to eliminate export refunds entirely. We would like to do business without any export refunds. We do not want subsidies, we want to be able to trade on a fair playing field, but we need to be able to buy raw materials at the prices at which our competitors outside the EU can buy those raw materials. That is our first concern: if export refunds are decreased or eliminated will the price cuts, for example in sugar, actually materialise? Our second concern is that the proposals as they stand—and we have not had clarification about how the export refunds will be calculated—at the moment are compensating us for the difference between the world market price and the EU intervention price, but remember already we are paying 10% above that EU intervention price in many countries including the UK, so we are already losing some of the value. We are not sure whether the export refund will be calculated on the basis of the EU reference price and obviously if our market price continues to be above that, we are losing. Will it be calculated net of the

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Mr Tyas: It brings us back to the point that we do not seek subsidy, we just want a level playing field. The only reason that the export refunds are there today is because it is not a level playing field. If we can get back to a level playing field, then we would be happy to do without those refunds.

Q123 Chairman: I presume, because of the uncertainties, there is no way you could quantify the effect on your businesses of an unsatisfactory situation as far as export refunds are concerned then.

Ms Lucuk: I do not have a sector figure in my head, but we can provide the Committee afterwards with a calculation of that. It has certainly been done on an EU level for our sector and there is a study about the impact of the loss of export refunds which we can provide the Committee with. Certainly products such as cream eggs are enjoyed in the US and in Canada and they are manufactured for export in the UK, so it would interest us.

Chairman: That information would be very helpful.

Q124 Mr Vara: The underlying theme, Mr Tyas, of what you and your colleagues are saying is that the price of sugar determines the cost which the manufacturers eventually pass over to the consumer. Mr Laming, you referred to the sugarless goods being produced now. Of course there is a major debate going on about sugar, obesity, diet and everything else. If we go into any store or supermarket now we find items, whether it be jam, drinks, biscuits, whatever, which have less sugar than before. Let me put a proposition to you. If you are paying a certain amount of money for sugar and if it is at a high level, if you are buying less sugar than you did before and you are still charging the same to the consumer, which you are, then why are you complaining? You are using less sugar, even if the prices are high, the cost for your materials are not as much because you are using less sugar.

Mr Tyas: Our main argument is that the products are produced with the amount of sugar which the consumer likes in terms of taste.

Q125 Mr Vara: The consumer wants to use less sugar. That is the premise. You said earlier on that the consumer decides based on cost. I am saying to you that the consumer is now deciding based on health.

Mr Tyas: I think we are agreeing with you: the consumer chooses the products which they prefer in taste. Many of our products are treats. Our concern is that they will buy those products with a greater or lesser amount of sugar regardless, depending upon their taste. What we want to do is to have those products manufactured in this country, with British jobs. We do not want them to be produced elsewhere because we pay, in this country, a higher price for that sugar than they do elsewhere. That is the principal argument.

Q126 Mr Vara: You are not addressing the question. You are paying a higher price, if it is higher, but you are buying less of it.

Mr Tyas: We are paying a higher price—

Q127 Mr Vara: But less of it.

Mr Tyas: Even if the product is made in Poland, for example, or outside the EU in Bulgaria, it is still going to have the same amount of sugar. If it is a low sugar product, it is going to be a low sugar product. The consumer buys on taste, but products are generally manufactured on location dependent upon cost. It is the cost of manufacturing in this country which we are so concerned about.

Mr Laming: May I expand on that, specifically in the context of soft drinks, because I think you were picking up my earlier remarks? There has been an historic shift, if you look at the budget lines in this range of drinks, the ones which retail at the lowest prices, from sugar to intense sweeteners, supposedly for cost reasons. This has happened over the last 20 years. That is a fundamental shift which has happened and it is basically irreversible. Now, looking ahead, the choice people make is really based on taste rather than price, in terms of the amounts of different kinds of products which people choose because we see that consumption of goods containing sugar is not going up even though the price is falling in real terms. There is no elasticity there. Above all that there is an increasing awareness of the value of including drinks with intense sweeteners in the diet as opposed to drinks with nutritive sweeteners for people who wish to enjoy soft drinks, but restrict their calorie intake. While the soft drinks industry is buying a bit less sugar than it did 20 years ago—

Q128 Mr Vara: A lot less I would have said and the trend is towards that.

Mr Laming: Yes, the trend is towards less. It is going into fewer drinks. The drink which contains sugar contains the same amount of sugar it contained 20 years ago. It is just that increasing proportions of drinks are diet, low calorie and have no sugar at all. Mixed sweetener drinks, some sugar and some intense sweetener, are a very small proportion of the market.

Q129 Chairman: I think what Mr Vara may be getting at, and I hope that I am interpreting his question correctly, is that if the price of the product remains the same and the amount of sugar in it goes down, then there is a little more in it for you. Mr Tyas has said that the product is the product the consumer wants and you are selling in a market where relativities are important and therefore it does not matter what the proportion of sugar is, it is one similar product compared with another which dictates whether the product sells or not.

Mr Tyas: Yes, that is exactly right. It is where the product is produced which perhaps concerns us most.

Q130 Chairman: A final brief comment from Mr Laming.
Mr Laming: The idea that there are drinks with less sugar in, no. The recipes are staying pretty much the same. What is happening is that people are switching from drinks with sugar to drinks without sugar. There is no incremental fall per drink. 

Chairman: I think we have got the message. It was very interesting to hear all the discussion about sugar. I can remember as a small boy being taken to the Castle Museum in York in the period of post-war sugar rationing and standing in front of an exhibition labelled Sugar Mountain. There was this wonderful dome-shaped piece of sugar which had been in this museum since before the war and my mother always used to look at it and say it was a year’s ration of sugar. Some of us come at this from perhaps a slightly different point of view to other colleagues who have not had a similar mind-setting experience. May I thank you all very much indeed for the evidence you have given; thank you very much for your evidence.

Supplementary memorandum submitted by UK Industrial Sugar Users Group

THE PRICE OF SUGAR AND ITS IMPACT ON INDUSTRIAL USERS AND CONSUMERS

1. There is an apparent paradox in the impact of a fall in the price of sugar, along the lines that its high price under the sugar regime is a major drain on the competitiveness of industrial users yet a lower price of sugar as an ingredient would not have the same sized impact on the price of goods containing sugar on supermarket shelves. Those prices would be lower, but not as much lower. There is no contradiction: the explanation is this.

2. There are many additional costs involved in the manufacture of goods containing sugar besides the sugar itself, and there are many additional costs represented in the retail price besides the costs of manufacture.

3. To the consumer (graph on the left), sugar is a smaller proportion of the overall purchase price than it is to the retailer (graph in the middle) or the manufacturer (graph on the right).

What the consumer pays | What the retailer pays | What the manufacturer pays

Sugar | Other factory costs | Other manufacturer costs | Retailer costs

4. In particular, to a manufacturer who is deciding the location of a new investment, the fact that the price of sugar is 10% higher in the UK than elsewhere in Europe could be a considerable disincentive. This is one of the reasons why 16,000 jobs have been lost in the British confectionery sector in the last five years. Output of confectionery products in the UK has fallen over the same period as the same time as it has been rising elsewhere in the EU.

THE COSTS OF PRODUCTION

5. To put this argument into some kind of perspective, the breakdown of factory costs for a typical soft drink might be as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>40%</td>
</tr>
<tr>
<td>Other ingredients</td>
<td>10%</td>
</tr>
<tr>
<td>Packaging</td>
<td>25%</td>
</tr>
<tr>
<td>Staff, logistics, plant</td>
<td>25%</td>
</tr>
</tbody>
</table>
6. Sugar will make a different proportion of the factory cost for different categories of product containing sugar. Typical examples are as follows:

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar confectionery</td>
<td>60%</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>40%</td>
</tr>
<tr>
<td>Chocolate</td>
<td>30%</td>
</tr>
<tr>
<td>Biscuits and cakes</td>
<td>10%</td>
</tr>
<tr>
<td>Canned goods</td>
<td>10%</td>
</tr>
</tbody>
</table>

7. The excessively high price of such a major ingredient puts UK manufacturers at a competitive disadvantage compared to those in the rest of the EU. The reform of the sugar regime must put an end to this problem, if the decline in employment and output of the UK confectionery industry is to be halted and reversed.

UK Industrial Sugar Users Group

October 2005
Monday 24 October 2005

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Patrick Hall
Lynne Jones

Daniel Kawczynski
Mrs Madeline Moon
Sir Peter Soulsby
Mr Roger Williams

Witness: Mr Wubbo Wage, Board member, Dutch Beet Growers’ Federation, examined.

Chairman: Good afternoon, ladies and gentlemen, welcome to the second evidence session of the Committee’s inquiry into the European Union’s sugar beet regime. I am delighted to welcome Mr Wubbo Wage, the Board Member from the Dutch Beet Growers’ Federation, who has very kindly come to talk to us to give us a perspective on this problem from, shall we say, the other side, the southern end of the North Sea or the top end of the Channel, whichever way you care to look at it. I am particularly grateful because, Mr Wage, I gather you have had quite a lot of travelling to do in the last 48 hours, and thank you very much for travelling again to be with us today and also for being brave enough to represent non-UK growers’ interests before the Committee. Some of your fellow European colleagues were perhaps a little more reluctant to come, so we are particularly grateful to you for coming. I am going to ask my colleague, James Duddridge, if he would be kind enough to put the first question to you.

Q131 James Duddridge: I am interested in your overall reaction to the draft legislative proposals and particularly whether you see them as an improvement on the initial consultation document of July last year.

Mr Wage: First of all, it is a pleasure for us to be here in London. The UK has a very important position in the second part of this year especially for sugar. I am a practical farmer and as such it is my duty to be here in this meeting and put our approach about the new sugar regime. First of all, I would like to say that we have a Sugar Platform in the Netherlands. We are working together with our industry and sugar beet growers, so we have a platform and until now we have the same attitude and the same sound to the outside. We had an invitation from our Minister of Agriculture, “There is a lot of comment about the proposals from Brussels, do you have a better plan?” We have written a better plan, where it is placed for the least developed countries, where it is placed for more labour, and we propose a lower price cut for sugar and for beet, because the proposals from Mrs Fischer Boel is really a disaster for the best areas of European beet growers and also for our industry. Our approach is for a price cut for sugar of about 16 to 18%, and for beet of about 20 to 25%. Our approach is also to stop directly the subsidised exports; we will stop subsidised exports. We are in favour of the restructuring fund, we think it is a very good thing. The period of our new sugar regime must be at least eight years and we have got this in this proposal and we think it is very important. Furthermore, we want no reference price but we want an intervention price. All products from Common Market organisations in Brussels have an intervention price and we also want an intervention price. We had a lot of contact with ACP and LDC countries and also with Oxfam and Novib and NGO organisations, and finally we made a conclusion that it was a better way for the least developed countries and for the ACP countries to ask for a quota system and for a price guarantee. Why do we have an LDC agreement? To help the poorest in the world and if we would like to help the poorest in the world we must guarantee some price. Based on a world market, they do not have a position and our Parliament and our minds are in that direction and, as I said, together with the NGOs, together with Oxfam, together with Novib, we have made a good proposal. Our Parliament underlines totally this opinion. Our Government is still a little bit on the other side but Parliament is controlling the Government. Furthermore, we want compensation for at least 80% and we want a safeguard clause, because the proposal now means in 2008–09 we have a market that exists that is totally uncontrolled and it can destroy the whole sugar system, the sugar industry, the sugar beet growers in Europe. We do not know if two million tonnes or four million tonnes are going and we have to wait to see what will the restructuring regime bring in the next three or four years. It is not clear if we take enough quotas out of the business. Furthermore, after the loss of our panel and the argument of the panel for cross-subsidisation, we think with these lower prices that these arguments are gone, and why is it not allowed for Europe to export sugar to the developed markets? Other countries all over the world have higher domestic prices than the world market prices, so why is it not allowed for Europe? Furthermore, we think we must avoid SWAPS, which is really a risk in African countries, because you never know where the sugar has been produced. That is shortly our approach and our vision for the new sugar regime starting next year.

1 Oxfam Netherlands.
2 SWAPS (or triangular trading) is where Least Developed Countries (LDCs) can buy sugar on the world market, exchange this for locally produced sugar and then export the local sugar to the EU.
Chairman: Have you had any discussions with colleague organisations who represent farming interests in other parts of Europe about your view on this regime? I am interested in your comments about what I call the politics of the change, because the French may well take a different view from the one you put forward. Have you had any of those discussions?

**Mr Wage:** Yes. We sent our plan, the better future plan for the sugar market, all around Europe, and many people and many organisations underline more or less our view; more or less. So people, many from the sector, say, “Why do we have to stop subsidised exports? We are self-financing.” So there are little differences but a lower price cut, market regulation, safeguard compensation and so on are underlined especially by most countries. France think they are strong and perhaps they are the strongest and are not totally on our side, but Belgium, Germany, Austria, Sweden, all the countries’ growers’ organisations and also the industries are more or less interested in this way of thinking. There are differences but one thing is important for one country and another thing is important for another country. But one thing must be clear, the proposal from Mrs Fischer Boel is at a level that from our point of view the whole European sugar sector is at risk.

Chairman: On a point of information, I gather you have something like 5,700 sugar beet growers in the Netherlands?

**Mr Wage:** Yes.3

Chairman: Do I get the impression that a number of these farmers are quite small in the scale of their operation?

**Mr Wage:** Yes. Every year 5% of the farmers go out of business and inside this figure which you have mentioned are also farmers who deliver to companies, to private companies and to cooperatives, so it could be we have less growers but we try to increase the area per farmer. We know we have a quota system and the quotas have high value in our part of Europe and that is also a barrier to increase the area, but in the future we will increase the hectares per farmer; that is absolutely necessary. On the other side, we have done in the last years a lot of cost reduction. At the weekend I saw my annual financial report and then you see that we grow sugar beet for the last 20 years for the same money. Only by doing things better are we still in business. We have tried to optimise production and so on and so on. In the future, there will be a lower profit and we will lose in a very fast time many, many growers.

Chairman: Are these growers mixed farmers? They do other things than just grow sugar beet?

**Mr Wage:** Most arable farmers in the Netherlands grow sugar beet. There are several mixed farmers who 20 years ago went in the direction of dairy farming and arable farming, so 80% are arable farmers and sugar beet is a very important crop for the income. Between 12 and 18% of our area on the farm is sugar beet but the income is representing about 25 to 32% of our income, so it is a very important crop for the income and that is also the reason that we are very concerned about these proposals.

Mr Williams: You have talked about bearing down on your costs of production and Dutch beet growers are seen as relatively efficient in Europe although probably the French growers are seen to be the most efficient. Would you agree with that and perhaps you could tell us why the French producers are more efficient?

**Mr Wage:** French growers are very efficient because they have a yield of about 12, 13 tonnes per hectare, the highest in Europe. Perhaps the cost of land is a little bit lower in France. The climate conditions are perhaps the best in Europe. But we also try to reduce costs and we have started at this moment a programme of cost reduction and our farmers are saying to us, “What are you saying about energy? An increase of energy last year reduced all alternatives to reduce cost.” So we are looking to the contractors, “Can you harvest more with your engines? Can we work together with using fertilisers and herbicides” and so on. It is a continuing programme of minimising inputs. That is the way of agriculture in this decade. We do not have a correction for inflation and so on, we have to do things cheaper and better, that is our way of life in agriculture.

Mr Williams: I know. Would you think the relative efficiency of French beet growers is anything to do with farm structure and farm size in France or are the size of beet production units about the same?

**Mr Wage:** It is very difficult to say. The French know they are in first place in Europe but they have also their cost increases. I will mention one thing, there is the takeover by the French growers of their industry, so perhaps it is also a little bit outside of the French. Their yield is the highest in Europe after Switzerland, which is the best area for sugar beet growing. I think the investment that the French growers have made in the last four or five years is also very difficult for them. I will say the French in the first year did not get any money from their yields to keep the factories in French ownership.

Mr Williams: Given your relative efficiency and the fact that 5% of your growers are going out of business every year, what effect will the proposed reduction in sugar price have on your industry and will it survive?

**Mr Wage:** The effect on the industry?

Mr Williams: No, on the beet growers.

**Mr Wage:** That is very difficult to say. Farmers stop production but, on the other side, we have a quota system and we have to take over the quota, and when you take over the quota the first two or

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3 *Note by witness:* There are 15,700 beet growers in the Netherlands.
We transport sugar beet six and a half times a week, we have a very high slicing capacity because in the three factories we have about 16,000 tonnes a day. I think, and perhaps I am a little proud of my industry, with this high slicing capacity of 16,000 tonnes a day we are there.

Following on from that, can I ask if you are able to quantify some of your predictions and the effects of the reform of the regime? At the moment, as I understand it, you have about 37,000 hectares of sugar beet production, are you able to give any prediction of what that might reduce down to as a result of the changes? Similarly, you have got, I understand, somewhere in the region of 400 people working in sugar factories and perhaps 9,000 others involved in related employment. Again, are you able to quantify what might be the effect of the changes?

First of all, I heard 37,000 hectares of sugar beet, I think we have 92,000 hectares of sugar beet.

That is a significant difference.

Yes, 92,000 hectares of sugar beet is the figure for this year. We always had 100,000 hectares of sugar beet. Our industry says, and our growers are saying, when we get the beet price of €25, it is not really €25, because we have a production levy, we can discuss lower minimum prices and so on and we can get compensation of 60%. There are many farmers who go out of business, who are stopping with sugar beet growing, because it is not profitable to grow sugar beet for €25 a tonne and in our situation we get about 10,500 kilograms of sugar per hectare so we stop with sugar beet growing. Then we get the problem that the industry needs about 30,000 hectares for one factory and we have the problem that we have 20,000 hectares for one factory, and we have a short campaign and then it is over. So this is really a disaster. We are in a strong area, not the strongest but we are in the top five, and then we will have really a problem, and not only for the farmers but also for the jobs in the countryside. For the local economy in the countryside sugar beet growing is very important—for the contractor, for the seed company, for all the people who are involved with equipment and so on.

The sugar sector is a very important economy for the countryside. We do not have so many economies in the countryside and the sugar sector in the future has to be sustainable. It is a very important crop because until now it is profitable.

So very broadly what proportion of reduction might you anticipate in the area of sugar beet production? Very broadly?

It is a very good question, but if we want to go on with sugar beet production in Europe we must do it in the best areas, so I think we are in favour of the restructuring fund because then we can stay in production in the best areas. Otherwise we will have to import and so on. It would be a pity if we reduce quotas in the strongest area and I would not like it. We are very much in favour of the restructuring fund and we think it is a very good thing but it is not easy for the people and the employers in the factory and the growers in the industry to take the decision, “We are going out of business”; that is a very difficult decision.

Can I ask about factories?

As I understand it, there are currently four factories operating in the Netherlands. Do you expect any of those Dutch factories to close as a result of the reforms?

Yes. Last year we closed a factory and we have now three factories, so we have a campaign length of 100, 105 days, so we have more results from the investment for our industry. So we are moving forward to optimise slicing capacity.

Would you expect the number of factories to drop still further?

We need finally 85,000–90,000 hectares of sugar beet for three factories, and that means in our situation we need 30,000 hectares around one factory, that is the optimum, with a slicing capacity of about 16–17,000 tonnes a day. That is the optimum from our point of view.

Can we ask you about the compensation regime that is proposed under these proposals? The Commission are talking about compensating growers to the tune of 60% of losses as a result of the proposed price reduction. Do you think that is a fair regime of compensation?

Chairman:
Secondly, in terms of the Netherlands, how would that compensation package be introduced? Would it be in some way coupled to production or would it just be a free-standing payment to the growers?

**Mr Wage:** Yes, we are also looking to the other products in a Common Market organisation, and I have mentioned rice which has a compensation of 88%, and there are several other products which are highly compensated. We think the 60% is not really 60%. We have our financial discipline, we have our modulation and perhaps other things, and it also disregards the mix between A and B quotas, and there is also a point of discussion on what is part of €47 or €43.9. So we say we need at least 80% compensation in line with other products which are reformed in Brussels. So at least 80% we need to stay in business. The second question is a very interesting question, we want not a calculation based on the period 2000–02 but on a younger period closer to 2006. We would like to have our reference period as 2004–05 because we have a lot of quota transfer, a lot of farmers are going out of business, and we want that people who grow sugar beet in the future have the right of compensation. So very close to 2006. The discussion on decoupled payments or coupled payments is a very interesting discussion. We have a very good relation with our industry in the Netherlands. The industry needs sugar beet and growers need the industry. We think for €25 our growers will stop sugar beet growing. When we have a decoupled payment, they stop their business, and we are thinking at this moment—and I cannot answer very clearly what we are doing—for a short period of coupling on production but I know that most countries say, “We want to decouple payments” but we are in discussion about it.

**Q149 Chairman:** In discussion with the growers?

**Mr Wage:** With the growers and with the industry saying, “How are we managing the payments?” Finally, I think it becomes decoupled but we are consulting the arguments for a 40% coupling to deliver enough sugar beet to the factory, but we say the money is owned by the growers and at the moment that the industry goes out of business, we go direct to decoupling, it is no part of the beet price, it is only an insurance for delivering enough beet. But it is in discussion, and I am being very open here in this meeting, and it could be said on the other side a decoupled payment. But it belongs to the growers who stay in business after 2006. That we will try to arrange.

**Q150 Lynne Jones:** What you are saying then is that you want payments to be based on production but based on recent figures so that those farmers who have already gone out of business would not get any compensation, it is only those who are staying in the business?

**Mr Wage:** There are a lot of farmers in the Fischer Boel proposal in the reference period 2000–02. We have about 15, 20% of our quota at this moment in 2006 that belongs to other farmers, so we think it is not done to pay growers who have stopped before this new sugar regime to give them compensation because they were growing sugar beet in 2000–02. So we say very shortly before 2006.

**Q151 Lynne Jones:** Our figures indicated, as was discussed earlier, that your processing industry was not as efficient as in other parts of the EU. You have contradicted that. Is that because our figures are based on you having four factories and you now only have three and therefore you are producing the same amount of sugar from three factories and therefore you are more efficient?

**Mr Wage:** Yes. From my point of view, inefficiency is a low extraction rate, too much labour, not very efficient with energy and so on and so on. I say we are on a technical very high level and when we visited Eastern Europe—and I was there the week before—they have an extraction rate much lower.

**Q152 Lynne Jones:** Talking about those most efficient countries though, you say you have a very good relationship with the processors?

**Mr Wage:** Yes.

**Q153 Lynne Jones:** Do you think that the relationship is similar to the relationship within perhaps the UK? The farmers in the UK say that the processors have all the power. Would you say that is not the case in the Netherlands?

**Mr Wage:** No, we do not have one industry but two and I deliver to the private industry. We have one industry, there is a co-operative, they are shareholders and they are the people who deliver the sugar beet, but also I deliver to the private company, CSM, and they have a stakeholder mentality. People who work in the factory are very important, the growers are important, also the shareholders are important, and when you make a mix together of these three elements you have people who are proud of their industry. So it is very strong and then you are strong for the future.

**Q154 Lynne Jones:** So do you think having the farmers’ co-operatives has made a difference in your relationship with the other processors?

**Mr Wage:** That is a very interesting question. I do not know. I cannot answer because it is very difficult to answer. We have countries with monopoly sugar processors and that is perhaps more difficult than our area where we have a stakeholder mentality. That is very important.

**Q155 Lynne Jones:** It is important that you continue to farm 92,000 hectares in order to keep those three factories open?

**Mr Wage:** Yes, 85–90,000 hectares we need to have a production of around 100 days. We think that is absolutely necessary otherwise when you drop your production to 60–65 days, it is too short and a new factory costs at least €400 million, so you have to use your equipment very well.
Q156 Mr Kawczynski: Could I ask about the general position of the Dutch Government in all of this and what their position is? How has your organisation managed to influence their official line?

Mr Wage: I said at the beginning that our Minister of Agriculture invited us to do a better proposal. We had a lot of comments about the proposals of Mr Fischer and later Mrs Fischer Boel, so they said, “Come with an alternative.” Then we were talking with the ACP and LDC countries and we know those countries have visited all the capitals in Europe and have been in Brussels asking for a price guarantee and a quota system to earn some money for market access. We were discussing with the NGOs, with Oxfam and Novib, and so we made our plan which I have announced here to stop subsidised exports, a quota system for the least developed countries and ACP countries. We could also defend our point of view that we do not like imports but we accept a place from the least developed countries and ACP countries in our new sugar regime. That was a very important approach to our Dutch Parliament. They had never seen before us working together with NGOs, with all actors in the playing field, and they underlined as Parliament our approach; they thought it was fantastic. “We have never seen before so many organisations underlining an alternative plan.” They pressed also the Government to follow this line but in the discussions in Government it is not completely clear if they are following the wishes of our Parliament. They say, “Yes, we know about it. Yes, it will be very difficult to come with a new sugar regime in November. We need a little bit of place and don’t fix me except on figures.” That is the position of our Government. But they also know that our sugar companies and our sugar beet growers are at risk; they know that very well. I cannot understand that when we make a place for the least developed countries and the ACP countries—and this is a little bit of a personal remark—that we destroy the European sugar sector. I cannot understand that. I told you that 20 years ago we had the same amount per tonne of sugar beet in this period and now we are doing things better, and now politicians ask, “Can you work cheaper”, it is amazing for me. We do not have inflation correction, we do not have anything, only through increasing the yield and doing things better. If I may make a personal remark, we were also discussing with the unions in the Netherlands that we have to create a win-win situation, that we can stay in business in Europe, look for a place for the least developed countries and the ACP countries, and from our point of view we should think about bioethanol-production, bioethanol in the least developed countries and the ACP countries and probably export to the EU, and then we create a win-win situation, and our labour organisation is very in favour of this idea. Perhaps this idea to keep local economies in the countryside in Europe at a good level can make a place for the least developed countries and ACP countries. So we create a win-win situation and that is what I would wish.

Q157 Mr Kawczynski: As a follow-up, does the Dutch Government see sugar production as a strategic sector? Does it feel agriculture is strategically important and is prepared to subsidise it? Does it have the political will to do that?

Mr Wage: Yes, it belongs to my point of view that if your grandfather was involved with agriculture and so on, so when you have a relationship with agriculture you think that agriculture has a good place in the local economy—especially flowers, vegetables, dairy farming and also arable farming—it is very important for the local economy in the countryside. Our Government has an approach that farmers have to manage the countryside, so it is turning a little bit. When I speak about bird ‘flu, when we are importing everything, it is very risky to be completely importing everything all over the world. From my point of view, we must think about the local economy. On the other side, we can create unemployment in Europe but what are we to do with these people? It is better they stay in business and also have workers in the factories and they are fighting to stay in the sugar business. They know they have a good job and they want to keep their good jobs. Also in political meetings with our labour organisation in the Netherlands they say, “Why do I have to go for LDC countries and ACP countries? What do I do wrong?” Then I say, “Why don’t we create a win-win situation and perhaps produce bioethanol additional to the sugar market.” That would be a good idea. Also our unions said, “That is a good idea, that is a good solution, we will want to support it.” So at this moment there is a delegation of consultants in South Africa to bring this idea to the attention of Tanzania, Mozambique, South Africa and so on and so on and to say, “This is a challenge, this is an opportunity, what do you think about it?” I am free to bring it here to say that perhaps we can create a win-win for the European sugar sector.

Q158 Chairman: Mr Wage, you have put forward with passion your views and I want to conclude with one political question. You laid out very clearly for the Committee the importance of sugar beet production both from an environmental and agricultural point of view in the Netherlands; you have laid down the fact you thought 80% should be the level of compensation, not 60; you have made it very clear that you wanted to have no reference price mechanism; and you wanted a guaranteed price mechanism for the ACP countries. Those are four very big issues. The politics of the November Council of Ministers will be to try and get an agreement prior to negotiations in the World Trade Organisation at the end of the year in Hong Kong. What is your assessment as to whether the coalition of those countries who presently disagree with the Commission’s proposals will hold firm when they have to think about the wider picture of the agreement at the end of the year? Because what you have described is a position which normally results in the Council having to think a few times before the regime is finalised, but the pressure in
November is going to be very great for an agreement to be reached. What is your personal assessment about the politics of the November Council?

**Mr Wage:** I know there are many countries who cannot agree with this proposal, so Mrs Fischer Boel and Ministers will look for a little bit of movement in one or another direction. It must be clear when this is going on that without our amendments we will destroy the European sugar market. I cannot believe that all the people who are involved in politics will take this responsibility. I think this goes too far, too deep, too fast and it is unbalanced. There are a lot of things for the future of the sugar sector. That is why I am disappointed, we are lobbying a lot, and day after day we give explanations to agree with us but now it is to make a point and it is politic to make a point. I refuse to believe that in November they will take the decision that they will say it is over in Europe as a sugar industry and only the French can stay in business, and furthermore it is only import. Then we have the responsibility about unemployment, capital, all investments will be destroyed and so on. I cannot believe we will take such a ridiculous decision. Yes, also, you must understand that the ACP countries and the LDC countries are very, very disappointed in this proposal. I think political people have to listen and to calculate more and not take decisions about emotions because everyone likes to help the poor people in the world, everyone, but then they come with a proposal which brings nothing. The poorer people stay poorer and then you have to build a factory for about €400 million in such a country and you deliver your sugar cane to that factory and you earn nothing. It was the idea to help the poorest in the world but then we have to make a sugar regime where we do what we are saying. It is not in my interest that is on the market but it is a political reality that is occurring in the market. Yes, in the Dutch situation we agree with this, but I would be for a win-win situation, to use bioethanol. Sugar cane is the first product to use bioethanol, it will be a very good approach from my point of view.

**Chairman:** Thank you very much indeed, first of all, again, for coming, and secondly for answering our questions with such clarity and for the passion with which you put your growers’ case. I think you already have a friend at the back of the room because I notice, if body language is a communicator, the President of our own National Farmers’ Union was smiling at points in your response. Thank you very much indeed, Mr Wage, for coming to give evidence to the Committee. We very much appreciate it.

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**Memorandum submitted by National Farmers’ Union**

**Executive Summary**

The following should be read in conjunction with the NFU’s full submission.

**Price cuts**

The NFU regards the proposed price reduction of 42.6% as unnecessarily severe. Price cuts should be limited to what is necessary to drive the Restructuring Scheme and achieve the required reduction in European production.

**Additional price cuts**

A combination of additional price cuts and factors not taken into consideration by Commission calculations will effectively mean that UK growers could face a price cut of approximately 54%.

**Quota**

The NFU is opposed to compulsory quota cuts and welcomes the Commission’s intention to use a combination of price cuts and a voluntary restructuring scheme to achieve market equilibrium instead.

**Quota ownership**

The NFU is disappointed that in both of its proposals for the Restructuring Scheme and quota buy-back, the Commission has neglected the legitimate rights and interests of growers by failing to provide an adequate role for growers in the decision making process.

**Implications for UK agriculture**

The effects of the proposed reform would include a material reduction in the area of beet grown in the UK, a reduction in the number of holdings on which sugar beet is grown and increased risk of factory closure. The loss of the crop on holdings will have a direct impact on the level of labour that the farm is able to support, and so lead to further job losses.
Decoupling

Compensation should be decoupled from production. Any scope for Member States to allow partial coupling would encourage less efficient producers to remain in beet production, thereby hindering the objective of achieving an efficient and viable EU industry in the longer term and disadvantaging UK growers.

Compensation

The Commission’s proposed flexibility over distribution of compensation would lead to unfair competitive distortions. The UK’s compensation effectively represents 53% of the real price reduction (following the final price cut in 2007), not the 60% headline figure in the Commission proposals. These uncompensated elements should be incorporated into the national compensation envelopes.

Contractual arrangements

Assuming a reform is agreed that does not discriminate against the UK, future viability and profitability still depends on viable new commercial arrangements between growers and processor. Working with growers, the NFU Sugar Board is developing a vision for the future that will require a commitment to real partnership from British Sugar/ABF Plc.

Government must also recognise the stake that it holds within the industry, and do what it can to help processor and grower secure a robust commercial partnership.

INTRODUCTION

The National Farmers’ Union of England and Wales (NFU) is recognised in legislation as being the body substantially representative of the producers of sugar beet in the UK. As such, it negotiates on behalf of all UK sugar beet producers and welcomes the opportunity to provide evidence on the reform in the EU sugar sector.

1. EXTENT AND TIMESCALE OF THE PROPOSED PRICE REDUCTIONS

Extent of price cuts and method(s) for achieving market equilibrium

1.1 The NFU concedes that the EU is bound to implement a cut in price in order to satisfy a combination of internal and external pressures. Furthermore, the NFU acknowledges the need to achieve a balance in the market between EU production and imports on the one hand and domestic consumption and exports on the other.

1.2 The NFU welcomes the fact that the Commission has proposed no compulsory quota cuts. The necessary adjustment in the volume of European production will be achieved by a combination of price cuts and a voluntary restructuring scheme.

1.3 The level of price cuts should be carefully balanced. The reduction should be limited to what is necessary to drive the Restructuring Scheme and achieve the required reduction in European production, but allow profitable beet production to continue to be viable in the most efficient regions.

1.4 We feel that a headline price reduction of 42.6% is unnecessarily severe in attempting to achieve these aims and will jeopardise beet production in even the most efficient EU Member States, including the UK.

Additional price cuts

1.5 A headline reduction in the Minimum Beet Price of 42.6% over two years does not begin to tell the real story of the kind of price cuts that UK growers are likely to face. A combination of additional price cuts and factors not taken into consideration by Commission calculations will effectively mean that UK growers could face a price cut of approximately 54% (see Appendix 1 for summary). The additional cuts are described below.

Production Levy (applicable to all Member States)

1.6 The stipulation that 50% of the “Production Charge” can be charged to the growers (Article 16) equates to a further price reduction of €0.78/t beet, or a Minimum Beet Price of €24.27 (an additional price reduction of 1.7%). In the current regulation, the production levy was introduced to finance the cost of the sale of quota sugar in excess of Community production. Following reform, however, production under quota to be sold on the Community market will always be lower than consumption because imports will significantly exceed exports of quota sugar. The Production Charge is therefore unjustified and should be removed altogether.
**Flexibility Clause (applicable to all Member States)**

1.7 The “flexibility clause” (section 2.2 of Explanatory Memorandum) allows for a further 10% reduction in the Minimum Beet Price to be negotiated if the EU market price drops below the reference price. The NFU understands that the rationale for this clause is to enable factories to remain viable in times of adverse market price conditions. However, not only does this contradict the very notion of a minimum price, and put further pressure on growers’ margins, it is also asymmetrical in its implementation. If growers are to help keep factories viable when the market price is lower than the reference price, they should be given the opportunity to benefit from a share in the extra margin when the market price is higher than the reference price. This inequity is symptomatic of the imbalance that has arisen in the grower-processor relationship over time. Activation of the flexibility clause would see the beet price reduced to €21.84/t (including the “production charge”), representing an overall price reduction of 50%.

**Loss of Deficit Area Premium (specific to some Member States, including UK)**

1.8 The UK status as a deficit area producer—approximately 50% of sugar for domestic consumption is imported from African, Caribbean and Pacific (ACP) producing countries—has meant that growers have benefited from an additional €1.90/t of beet produced. While the NFU accepts that this status may no longer be applicable post-reform, we believe that the existence of the deficit area premium should be taken into account in the Commission’s calculations and its removal compensated for in the UK national compensation envelope (see part 4 on compensation for more detail).

**Merging of “A” and “B” Quota (specific to some Member States, including UK)**

1.9 The notion of implementing the 42.6% price cut on an amalgamated A + B quota discriminates against Member States with proportionally smaller B quota; these Member States, including the UK, will effectively face a greater percentage price reduction. It is crucial to note that this is not due to any kind of preferential treatment; UK growers face the same Minimum Beet Price as growers from all other Member States. Rather, the discrimination is a result of the differing A and B beet prices caused by the higher levy paid on B beet. In their pursuit to simplify the quota system, the Commission have unfortunately failed to take into consideration the discriminatory effect this will have across the EU.

1.10 As a result of the proposed method, UK growers are likely to face an effective price cut of 2.3% over and above the 42.6% proposed by the Commission. UK growers must not be discriminated against, and the NFU disagrees with the notion of cutting prices on an amalgamated A + B quota. The Commission should devise an alternative solution that is equitable, taking into account the differing proportion of A and B quota across the EU.

**Summary**

1.11 The combination of these factors would mean that the UK neither starts at a price of €43.63/t beet, nor finishes up with a post-reform price of €25.05/t beet. Taking into account the UK’s proportionally smaller B quota and including the deficit area premium means that the UK actually starts at a theoretical price of €47/t beet.4,5

1.12 At the other end, implementation of the Production Charge will bring the Minimum Beet Price down to just €24.27/t. For the UK, this represents a minimum total effective price reduction of:

\[
((24.27 / 47.00) \times 100) - 100 = 48.4\%
\]

If the “flexibility clause” is implemented, the Minimum Beet Price could be reduced to just €21.84/t, representing a maximum total effective price reduction for the UK of:

\[
((21.84 / 47.00) \times 100) - 100 = 53.5\%
\]

**Timescale**

1.13 The NFU’s view on the time needed to implement the price cuts is largely dependent upon the final shape of reform compromise. Under the current state of play, the need to reduce prices in a relatively short period of time seems evident.

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4 As explained in the previous sub-section, it is important to note that the UK does not actually benefit from a higher Minimum Beet price, but that the Commission’s theoretical EU “reference price” of €43.63 falls short of representing the UK situation principally because of the differing proportions and prices of A and B quota across the EU.

5 If the Deficit Area Premium cannot be retained post-reform its loss should be recognised in national compensation.
2. Extent to which the Proposed Reductions in Price will be Transmitted to the Consumer

2.1 It is widely held within the sugar, and subsidiary industries, that the consumer is likely to see little benefit from the reform of the EU sugar industry. While the price of sugar will be substantially reduced and consumers are likely to be able to buy cheaper sugar from supermarkets, the majority of sugar consumed in the EU/UK is in the form of processed food products. Historical evidence suggests that sugar users are unlikely in the first instance to pass on the cost savings to their customers, instead pocketing the difference to increase their own margins. In the longer term, the extent to which price cuts will be passed on to customers will depend on the degree of competition in the food chain.

2.2 Given that most sugar is consumed in processed products, where the share of the total product price is trivial, and it is uncertain whether even this reduction would be passed on, it seems very unlikely that this reform will have any discernible impact on sugar consumption.

3. The Implications for UK Agriculture, with Particular Regard to Possible Alternative Land Uses

3.1 The NFU has carried extensive consultations with beet growers, and the views put forward in evidence below are those of UK sugar beet growers, and represent all parts of the sector.

3.2 The substantial reduction in price proposed will lead to a reduction in the numbers of farm holdings growing beet in the UK. The decision to continue or withdraw from production will be taken at farm level but there will be a number of common critical considerations:

- Soil type, impact on rotation and available alternative cropping.
- Distance to processing factory.
- Access to modern planting, harvesting and loading equipment.
- Scale of farm business.
- Age of owner/manager.

3.3 Until the net beet price available to UK growers is fixed, and negotiations about detailed contractual issues concluded, there are too many unknown variables to support valid sensitivity analysis, either at industry or farm level. It is interesting to note however, that the Impact Assessment produced by the EU stated that “break-even” beet price for UK growers was £40 per tonne; the subsequent conclusion that the UK beet industry could operate within the “safe zone” post reform appears to be based on the assumption that processor and grower will work together to secure additional efficiency savings, and that these would be shared between both parties.

3.4 It is clear to the NFU, however, that the reforms will lead to:

(a) A material reduction in the area (hectares) of beet grown in the UK; the current contract penalises growers that fail to meet their contract tonnage in two out of any three years by cutting the subsequent tonnage in future contract offers. Due to substantial variations in yield and sugar content resulting from different climactic and harvesting conditions, this practice has led to growers planting an additional area of crop for “insurance purposes”. British Sugar has sold production from this area, together with any additional tonnage over A&B contract levels into the “C sugar” market. This practice can no longer continue; the C sugar market no longer exists, and growers simply cannot afford to plant and grow crops that will not attract the market price.

3.5 Analysis by Savills Research\(^6\) shows that beet production has been over quota by on average 17–18% over the last 10 years, varying from 7% to 28%. Over the last five years, the crop area has tended to decrease; main fluctuations are due to yield and the sugar quantities in the beet. Savills has calculated that the area of crop needed to meet quota based on the historic 10 year average yield of 53.3 t/ha would be nearly 20% lower than in recent years.

3.6 The NFU will be involved in negotiations with British Sugar to find ways of better matching volume of sugar beet supply to tonnage of sugar quota.

3.7 (b) A reduction in the number of holdings on which sugar beet is grown. It is inevitable that some growers will find it impossible to supply sugar beet profitably to British Sugar under the terms of a new contract (yet to be determined). These businesses will include those for whom alternate cropping is a viable option, some for whom mono-culture becomes inevitable, and some for whom the only alternate is not to cultivate the land.

3.8 (c) An Increased Risk of Factory Closure; the impact on the processor is to be considered in a later question. It appears however that British Sugar do not plan to enter into the Restructuring Scheme; any subsequent factory closure will therefore not attract any EU restructuring payment as it stands.

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\(^6\) Savills Rural Research—Internal Briefing Note (Sugar Reform) 9 September 2005.
3.9 Sugar beet is an important crop for many holdings. It is relatively high output but labour intensive; it therefore supports labour costs across the remainder of the farm business. It is also a valuable spring sown break crop and offers substantial environmental benefits. Its use as part of a viable rotation is of crucial importance on many sugar beet growing farms, where soil type makes the use of alternates such as oilseed rape, pulses and brassicas unviable or impossible.

3.10 The loss of the crop on many holdings will have a direct impact on the level of labour that the farm is able to support, and so lead to further job losses. Many holdings are reaching a point where they are operating with the absolute minimum of labour; this inevitably means that the ancillary work to manage and maintain the landscape upon which the UK has become so reliant, cannot be carried out.

3.11 It is inevitable, that in many instances where Sugar Beet is removed from the rotation, it will be replaced with a crop that offers fewer environmental benefits, increases the level of mono-culture and so directly affects biodiversity and countryside quality.

3.12 Brooms Barn Research Organisation has produced a paper looking at the environmental impacts of sugar regime reform.

3.13 For a material proportion of growers, these alternate crops are also likely to produce a lower margin, and so erode further the profitability and viability of the business, not to mention the volatile effect this may have on the market balance of these alternative crops.

4. THE PROPOSED ARRANGEMENTS FOR COMPENSATING EU PRODUCERS

Decoupling

4.1 The NFU agrees that compensation should be decoupled from production. It is our strongly held view that this should be applicable to all Member States without delay. This is the Commission’s proposal, but we see a serious risk that—as happened in June 2003—in order to obtain a majority in the Council of Ministers there will be a compromise introducing the option of “partial” decoupling. This must be avoided at all costs. Any form of coupling will encourage less efficient producers to remain in beet production, thereby hindering the objective of achieving an efficient and viable EU industry in the longer term.

Level of compensation

4.2 Whether the level of compensation is acceptable will depend heavily on how compensation is to be administered, given that the Commission have allowed Member State flexibility over the right to distribute sugar beet compensation.

4.3 Having said this however, what is apparent is that the Commission’s headline compensation falls short of the 60% aim if the “real” price cut is taken into account. There are two aspects to this view. Firstly, that as a “deficit area” producer, UK growers are paid an additional €1.90/t quota beet. Secondly, implementation of the Production Charge to growers will reduce the Minimum Beet Price by a further €0.78/t beet to €24.27/t. While the first is specific to the UK and other deficit area Member States and the second is a valid concern for all Member States in beet production, both elements are omitted from the Commission’s calculation for the national compensation envelopes, therefore are “uncompensated”. In appendix 2 we show that in light of these factors, the UK compensation envelope effectively represents approximately 53% of the real price reduction (following the final price cut in 2007), not the 60% headline figure in the Commission proposals.

4.4 It is the NFU’s view that these so far uncompensated elements should be incorporated into the national compensation envelopes as they reflect the actual price reduction to be implemented, but without a reduction in the percentage commitment of 60%.

Single Payment Scheme

4.5 We agree that compensation for sugar reform should be incorporated into the SPS, but in practice this will make no difference in terms of cross-compliance. There is no such thing as a farmer who solely grows sugar beet. All growers would have been growing other arable crops that make them eligible for the SFP. In practice, therefore, sugar beet land is already subject to the full range of cross-compliance conditions.

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7 Sugar Beet supports up to half the world’s population of pink-footed geese which feed on left-over beet tops in fields in Norfolk. Beet fields also help declining skylarks and lapwing because they provide feeding and nesting sites (RSPB).

8 The Environmental Impacts of Sugar Beet Reform; Brooms Barn Research Organisation, July 2005.

9 This does not, however, predicate how compensation should be administered by the Member State.
Reference period

4.6 The NFU is satisfied with the flexibility that allows each Member State to choose the reference period for compensation to be paid. Historical circumstances in each Member State will differ. In the UK for example, 2000–02 would not be a suitable reference period due to the 2001 Outgoers Scheme. The NFU would support the most recent reference period possible (without incorporating any future years) as being the most appropriate means of reflecting current industry.

Administration of compensation

4.7 The Commission have offered Member States the flexibility to choose how compensation is administered nationally. Such flexibility will undoubtedly create competitive distortion among Member States with beet growers receiving historic compensation being placed theoretically in a better position to make efficiency gains and reinvest in the industry than those receiving regional compensation.

4.8 While the NFU believes that the optimal method would be to avoid any potential distortion altogether by ensuring compensation is paid consistently across the EU, we are mindful that flexibility will likely be retained and that the UK Government may favour a transitional hybrid compensation system that will ultimately lead to fully regional compensation.

4.9 Considering these circumstances, the NFU is actively exploring all possible options and outcomes with the aim of establishing a set of principles that will provide UK growers with maximum benefit for as long as possible and avoid being disadvantaged in comparison to our closest competitive rivals. The NFU would welcome the opportunity to discuss these principles with the UK Government at an appropriate time.

4.10 It is the view of the NFU that compensation should be distributed on the basis of (contracted) tonnage as opposed to beet area. This will benefit growers with higher yields.

5. The Changes to the Quota Arrangements

Amalgamation of A and B quotas

5.1 The Commission’s proposal to simplify the quota system by merging “A” and “B” quota into a new single quota and then cutting price causes disparity among Member States due to the differing proportion of A to B quota that each Member State holds.

5.2 The price growers receive for A beet is higher than the price received for B beet due to the higher levy charged on B (approx. 38%) than A (approx. 2%) beet. Coupled with a differing proportion of A to B beet across the Member States, this results in a different amalgamated or average price.

5.3 The NFU therefore opposes the notion of implementing price cuts on an amalgamated A + B quota on the basis that it disadvantages Member States with proportionally smaller B quotas. The Commission should devise an alternative solution that is both fair and equitable, taking into account the differing proportion of A and B quota across the EU.

Restructuring Scheme

5.4 The NFU acknowledges the need to reduce EU production in order to help achieve a long-term market balance and to meet our WTO obligations. The NFU agrees with the principle of a Restructuring Scheme as opposed to indiscriminate mandatory across-the-board quota cuts in order to achieve this aim.

5.5 In a more liberal world trading environment, there can be no long term future for European sugar production unless it is more competitive. Production must be allowed to gravitate to the most productive regions, and not artificially maintained across the whole of Europe by a quota system.

5.6 We support the offer of degressive aid over a four-year period that will hopefully encourage the least efficient regions in the EU to relinquish production gracefully, and sooner rather than later.

Purchase of additional quota

5.7 The NFU also agrees, in principle, with the provision to allow the most efficient Member States the opportunity to purchase a proportion of 1 m/t of additional quota, of which the UK “share” is 82,847 tonnes. Given a fair and balanced reform, we are confident that the UK beet industry has the ingredients to continue to prosper into the future and should therefore be given the ability to expand.

Quota ownership

5.8 The NFU has serious reservations over the detailed workings of both schemes. The Commission has neglected the legitimate rights and interests of growers by failing to provide an adequate role for growers in the decision making process involved in relinquishing quota under the Restructuring Scheme, and expanding quota under the additional quota purchase scheme.
5.9 Just as the issue of “quota ownership” had been central to the proposed mechanism to transfer quotas across national borders, the NFU believe the issue remains pivotal in the decision to relinquish and/or expand quota. We are concerned that the lack of a balanced approach to such a central issue as restructuring may have serious consequences for the issue of quota ownership.

5.10 The position in the UK is that the national Sugar Quota is held by the Government as custodian on behalf of the country, and made available to the sugar processor in order to provide access to the EU Sugar Regime for growers and processor.

5.11 How is this position to be maintained with regard to the additional 82,847 tonnes of sugar quota available for purchase by the UK? Will the Government acquire this tonnage on behalf of the industry, without seeking to recover any of the cost of acquisition from the processor or grower? If not, on what basis will a contribution be sought from processor and/or grower? If money changes hands, what impact does this have on the ownership of the additional quota? Would processor or growers have any rights in respect of this Quota, how would it be dealt with in respect of future cuts in quota imposed by the EU?

5.12 All these questions remain unanswered. It is imperative that the UK government enters into this debate as an active party, as custodian of the national sugar quota, and does not permit the tripartite relationship between Member State, grower and processor to be fundamentally altered or undermined.

5.13 The Commission and Member States need to address the issue of ownership more explicitly and recognise the legitimate interests of growers.

6. The Potential Impact of the Reforms on UK-based Sugar Beet Processors and Cane Refiners, and the Long-term Consequences for their Industries

6.1 The UK processor is on record\textsuperscript{10} that it expects the operating profit impact to be some £10 million in 2006–07 and some £40 million in 2007–08 and thereafter. It is also on record that it expects “these effects to be in part mitigated by cost reductions”. It is inevitable that these cost reductions will be focused in two areas; efficiency savings within processing and administration, and contractual arrangements (of which headline price for sugar beet is one of many complex elements) with its supplier base.

Processing Efficiency Savings

6.2 The NFU and growers have worked in partnership with British Sugar to extract maximum possible efficiency savings from plant and process. The NFU works closely with the processor to optimise communications with the 7,000 growers and minimise administration costs related to the annual contract cycle. The NFU and growers are not however, full partners in the processing of sugar beet, and have limited influence in decisions taken in that regard.

6.3 The NFU fully expects British Sugar to seek further savings within process and administration, and a factory closure cannot be ruled out as part of any cost mitigation strategy. British Sugar currently operates at six factories having closed sites at regular intervals in the last decade.

6.4 The Government has stated on record\textsuperscript{11} that it believes that factory closures are not a new phenomenon in the sugar sector and that ‘those are commercial decisions for the company’.

6.5 If this is the government’s position, it should consider that previous closures have led to consolidation of supply, with growers offered the right to supply an alternate factory. Any dis-enfranchisement of growers in the event of future factory closure would be inequitable; even more so when the processor may have unilaterally rejected an EU Restructuring Scheme that provides for compensation for growers forced out of production by factory closure.

Cost Savings via Contractual Arrangements with Supplier Base

6.6 The UK sugar beet industry has three key elements; the sugar quota holder (government as Member State); the processor (British Sugar a wholly owned subsidiary of Associated British Foods Plc, the international food, ingredients and retail group); and the growers, 7,000 individual farm businesses.

6.7 The relationship between processor and supplier of raw material (sugar beet) is inherently unbalanced.

6.8 In an effort to level this playing field, the supplier base is represented by the NFU Sugar Board, which carries out all negotiations and interaction with the processor on the growers’ behalf, acting as agent. The Sugar Board consists of elected beet growers. The Sugar Board is supported by an NFU executive team of four, one senior advisor, one researcher/economist, a beet intake manager and an assistant. This resource is funded by a levy, charged against each tonne sold to the processor, and collected by British Sugar.

\textsuperscript{10} ABF Plc press release; Publication of the European Commission’s proposals for the reform of the EU sugar regime 22 June 2005.

\textsuperscript{11} Elliot Morely, Defra response debate, 12 July 2005.
6.9 The inherent imbalance between single private sector monopoly processor and diverse grower base was recognised in the 1956 Sugar Act, which governed this tri-partite relationship following the privatisation of the formerly state owned processor. At this stage the Government reserved the right to:

- give directions regarding the prices to be paid by the then British Sugar Corporation under contracts for the purchase of home-grown beet (section 17(2));
- give directions to the Corporation prescribing the total quantity of home-grown beet which the Corporation might contract to purchase for delivery in any period specified in the directions (section 17(4));
- prepare for each year a programme for carrying out research and education in matters affecting the growing of home-grown beet, and could by order make provision for carrying any such programme into effect (section 18(1)).

6.10 In addition, section 23(1) ensured that neither the memorandum of association nor the articles of association of the Corporation could be altered without the consent of the Ministers given with the approval of the Treasury.

6.11 The direct involvement of government, and so protection of growers, has been watered down in subsequent legislation (most notably the Food Act, 1984), to a point where the only protection that growers can demand from the Minister is appointment of an arbitrator to resolve commercial disputes and to require the processor to provide information to support such resolution.

6.12 Whilst statutory protection of the grower has waned, the processor has evolved from a fledgling, newly privatised single interest company to become a wholly owned subsidiary a multi-national corporation.

6.13 Analysis by Savills Rural Research has assessed the three-year (2002–04) average profit made by British Sugar per tonne of processed sugar beet to be £18.01. That is £1 per tonne, or 5.5% higher than the minimum beet price proposed by the EU. These profit levels have generated an average return on net assets in excess of 30% over the last three years.

6.14 The commercial relationship between processor and grower is now governed by the Inter-Professional Agreement (IPA) which covers a range of detailed matters relating to price, haulage, processing, sugar content, early and late delivery payments, contract tonnage entitlement, contract management, seed, traceability etc.

6.15 It is anticipated by both processor and grower that the proposed reform will mean a radical renegotiation of the IPA. This is likely to be a hard fought commercial negotiation; ABF Plc has been used to high levels of profitability from British Sugar; analysis by Savills Rural Research assesses their three year average profits to October 2004 at £165 million, and average return on net assets at 34%. ABF Ltd assesses the annual impact of the reform proposals on British Sugar’s operating profit at £40 million from 2007–08.

6.16 The future of British Sugar relies upon viable new commercial arrangements with growers; many of whom will not be in a position to fulfil supply commitments if the full impact of a 55% price cut is passed on to farm.

6.17 The UK has perhaps the most efficient processing efficiency in Europe, but to maintain production British Sugar will need to share some of their additional processing margin with the grower. If the processor is to continue to prosper, it needs to secure a viable long term relationship with its supplier base that offers optimum efficiency and flexibility.

6.18 Working with growers, the NFU Sugar Board is developing a vision for the future of a viable UK industry. It will require a considerable commitment to partnership from British Sugar/ABF Plc.

6.19 This vision requires precisely the partnership response to reform that the EU envisages in its Impact Assessment. In recent years, the processor has not been slow to use its commercial muscle and greater negotiating resource to get the best deal. If this trend continues, the long-term viability of the sector, and so the processor, will be substantively threatened.

6.20 Government must recognise the stake that it holds within the industry, and do what it can to help processor and grower secure a robust and “future proofed” commercial partnership.

APPENDIX 1

ANALYSIS OF “EFFECTIVE” PRICE CUT FOR UK BEET

The Commission have used an indicative, weighted average for the EU15 of €43.63/t as the Minimum Beet Price. This figure is theoretical and fails to take account of the differing proportions of B quota in the Member States or the deficit area premium paid to those member states producing less than national consumption requirements. The “final” EU price of €25.05/t beet fails to consider either the Production Charge or the possible “flexibility clause”.

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**1st year**

Cut in Minimum Beet Price from €43.63 to €32.86 represents a reduction of 24.7%. The UK however, due to a proportionally smaller B quota and the deficit area premium of €1.90/t beet, begins with a weighted average (theoretical) Minimum Beet Price of €47.00.

A cut to €32.86 in the first year therefore represents a reduction by 30.1% to UK growers. Coupled with the provision for a further 10% reduction in the Minimum Beet Price if the market price falls below the reference price, this could effectively leave EU growers with a Minimum Beet Price in 2006-07 of €29.57. This would represent a cut of 37.1% to UK growers in the first year alone.

**2nd year**

Cut in Minimum Beet Price from €32.86 to €25.05. This represents a 2nd year cut of 23.8% for all EU growers. This represents an overall price reduction of 42.6% if we use the €43.63/t reference price used by the Commission. For the UK however, incorporating both our proportionally smaller B quota and deficit area premium (ie a theoretical weighted Minimum Beet Price of €47.00), this represents an overall cut of 46.7%.

If the Production Charge of €12/t sugar (to be introduced in 2007–08) is indeed shared 50/50 with growers, as Article 16 makes provision for, this equates to an additional reduction of €0.78/t in the Minimum Beet Price. This will result in a Minimum Beet Price of €24.27.

If the Minimum Beet Price is reduced still further by 10% in a marketing year when the market price falls below the reference price, this would leave the Minimum Beet Price at €21.84/t. This equates to £15.07/t beet and represents an overall cut of 49.9% from the Commission’s reference price (€43.63) and an overall cut of 53.5% for the UK.

**APPENDIX 2**

UK “Effective Compensation” (€/T)

<table>
<thead>
<tr>
<th>Reference Year</th>
<th>2006–07 A + B</th>
<th>2007–08 A + B</th>
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<tbody>
<tr>
<td>Minimum Beet Price</td>
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<td>32.86</td>
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<tr>
<td>Deficit Area Premium</td>
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<td>1.90</td>
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<tr>
<td>Production Charge</td>
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<tr>
<td>Total</td>
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<td>31.72</td>
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**Beet Receipts**

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<tr>
<th>Reference Year</th>
<th>Beet Receipts A + B</th>
<th>Losses 60%</th>
<th>EUR/ha Payments</th>
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</thead>
<tbody>
<tr>
<td>UK A Quota</td>
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<tr>
<td>UK B Quota</td>
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<td>152,330</td>
<td>386,802,958</td>
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<td>UK Beet for B Quota</td>
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<td>412,085,021</td>
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<tr>
<td>Beet Area</td>
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<td></td>
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<tr>
<td>Minimum Beet Price (Incl Deficit Area Premium)</td>
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**2006**

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<th>Beet Receipts A + B</th>
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<td>32.86</td>
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<td>488.36</td>
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**2007**

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<th>New Minimum Beet Price</th>
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<th>Losses 60%</th>
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<td>24.27</td>
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Comparison

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<td>“Effective” Compensation (%)</td>
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<td>52.9</td>
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National Farmers’ Union

September 2005

Witnesses: Mr Tim Bennett, President, Mr Mike Blacker, Chair, NFU Sugar and Ms Helen Kirkman, Chief Sugar Adviser, National Farmers’ Union, examined.

Q159 Chairman: I would now like to welcome our own National Union of Farmers to the witness stand. They are represented, for the record, by Tim Bennett, their President, Mike Blacker, the Chair of the NFU’s sugar committee and Helen Kirkman, who is the Chief Sugar Adviser. Just for the benefit of the Committee, Ms Kirkman and I know each other, not in any personal sense but her father is a leading agriculturalist in my own constituency and we have in the past talked about agricultural matters but nonetheless I hope that is not a detriment to you, and I am sure we will benefit from your expertise in the field of sugar. I would like to start. You can always tell when the NFU are exercised by generally within the EU. We have come from quite a lowly base a number of years ago.

Mr Blacker: It is a very good paper.

Q160 Chairman: It is cheaper than some novels.

Mr Blacker: As far as efficiency is concerned, yes, we pride ourselves with being up towards the top in the field of sugar. I would like to start. You can always tell when the NFU are exercised by generally within the EU. We have come from quite a lowly base a number of years ago.

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Q162 Chairman: Right. The same, I presume, in the industry that we are certainly amongst the best in Europe, between the processor and us as farmers. Of course, the effect of the regime change if it goes through anything like as described would drive that efficiency even more. That is why in broad principle the reform as outlined by the Commission is one we would support in terms of the theory of price cuts rather than quota cuts because it is the one way to allow efficiency to develop in terms of the sugar within Europe. We feel that we are up there with the best and we can be part of the survivors post this reform.

Mr Blacker: Chairman, first of all, thank you very much for the honour of coming and speaking to you again. I am sorry that we have sent a very lengthy document but I think it proves when you read it the passion we have in what we believe in and what we are trying to fight for, that was really the reason behind it, not just to weigh you down with far too much paperwork.

Q163 Chairman: I did read it. It is a good read.

Mr Blacker: It is a very good paper.

Q164 Chairman: Let me stop you for a second. The same, I presume, in industry that we are certainly amongst the best in Europe, between the processor and us as farmers. Of course, the effect of the regime change if it goes through anything like as described would drive that efficiency even more. That is why in broad principle the reform as outlined by the Commission is one we would support in terms of the theory of price cuts rather than quota cuts because it is the one way to allow efficiency to develop in terms of the sugar within Europe. We feel that we are up there with the best and we can be part of the survivors post this reform.

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Q168 Chairman: I did read it. It is a good read.

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Q164 Chairman: Put into context for me some of the economics of what we are talking about. Our previous witness indicated that he thought that the price reduction, 39%, which the Commission are proposing is too harsh. You have indicated that there might be further efficiencies to come within the UK industry, or should we say perhaps the English and Welsh industry, and you have indicated that we were “chasing the French”, so that gives an optimistic hint. The NFU are never happy when prices of anything are coming down but that is what is on offer, not increases. Can you help us to understand whether this 39% is realistic or whether, in fact, it is too low for our production costs to be met. I want to phrase that into another perspective because can you help me to understand it in terms of the returns per acre from sugar beet. Sugar beet is the most wonderful bit of historic anachronism, it has been left over. It is a wholly artificial mechanism of pricing one root crop compared with all the other root crops that are available. Can you give us some kind of indication in terms of returns per acre? How does sugar beet compare, particularly in East Anglia with the range of vegetable crops that are grown there, and more specifically, for example, in comparison with the potato crop, where does it figure in the hierarchy of returns? Would the returns under the price regime proposed enable efficient producers in the United Kingdom to cover their costs and make a positive return per acre if the agreement was introduced as proposed?

Mr Blacker: I will try and answer your questions. I remember on the last occasion, Chairman, you were trying to compare them with swedes, and we felt that was not a very good comparison. That is a very small market.

Q165 Chairman: I will try and do better.

Mr Blacker: Sugar at the present time ranks very high in the list, probably potatoes are higher but sugar beet comes fairly high up in the scale of returns per acre or hectare. Under this proposal, and let us still call it a proposal because in my opinion there is still quite a long way—

Q166 Chairman: Have you got any numbers to help us understand? You said it comes quite high.

Mr Blacker: No. I do not have any numbers on my mind.

Mr Bennett: I think what is important here are the price cuts as proposed by the Commission; at the moment we feel they are too harsh. It is not just 39%, it will go beyond that. What the Commission have to do in terms of the reform of the sugar regime is make sure that tonnage, that five million tonnes, goes out of production in terms of Europe. They have had to pitch this, I guess, at a price that would do that. In terms of both the French and ourselves—and we want to compare ourselves with the French in this instance—we feel these price cuts are too severe and would leave a margin, even to the most efficient grower in this country, not necessarily sustainable for them to invest in their business in the future.

Q167 Chairman: Hang on! You use language like “not necessarily sustainable”. I want this Committee to understand in objective terms. If you are saying it is too harsh, we need some numbers to understand what the language you have just used means.

Mr Bennett: We can certainly supply you with numbers on what we mean in terms of that. What we are talking about is the proposal on the price cuts, which we feel is too severe, and of course we have then got to negotiate with our partners in terms of margins post the reform. What we are saying is the price cuts as proposed would damage a lot of sugar producers in this country.

Q168 Chairman: I suppose what I was getting at at the back of my mind was if we take the arable sector and the fall, for example, in wheat prices which have taken place over the last few years, you could equally well have said the change in the regime there was deeply damaging but it has not stopped people growing wheat, has it?

Mr Bennett: It will be interesting to see. This is the first year in which we have got decoupled payments in terms of wheat and I think the production of wheat in this country will be much allied to what is the price of wheat in a decoupled world. I would like to see the figures on that in about 18 months’ time, I think it will be variable.

Mr Blacker: Can I come back on that. I do not want to go down the route of where we fit in and numbers per hectare. At the present time I would like to bring you back to where the proposal is and really perhaps answer your question in that direction. I think you have heard a very interesting comment from Mr Wage who said that over the last 30 years they have tried in the Netherlands to keep up with price by trying to improve efficiency all the time, and I guess we are in exactly the same position. This industry has taken massive strides forward in terms of the way it harvests, the way it conducts its work, the seed production that has been developed over the years to create a bigger yield per hectare, et cetera. It is very clear on two issues. Firstly, a known is that the proposal suggests €25 per tonne, that is a known to all of us. €25 per tonne without any complications in there, and sterling as it is today, gives us about £17 per tonne of beet. We know—which is probably the only study that is available publicly—the Defra study or the Cambridge study (whichever one you wish to go by) suggests that cost of production in the UK ranges from £19 to £28 a tonne. Clearly there is a gap, there is a £2 gap between the best person and the £17. I would suggest that even taking it beyond the UK, even taking it over the whole of Europe, there will be very, very few producers in the whole of Europe which could produce at £17 a tonne. I hope that helps in part of the debate.

Q169 Chairman: It does. I would still like an answer to my question because I am interested in returns per acre for other root crops because every farmer every year has to make a decision about what to put in the ground based on what is right for their enterprise. This will not be the first time that a price regime has changed, either by virtue of the market or a change
in the CAP which has forced people to reconsider what goes into their rotations. I ask these questions because I want to know if there is a viable alternative for farmers who currently grow sugar beet to move to something else if they have to, if the reduction in price is as severe and as damaging as you suggest. Mr Blacker: Can I try and answer that for you?

Q170 Chairman: You can.
Mr Blacker: Defra did a consultation document a few months ago and because we embarrassed Defra last year, I guess, by getting a lot of farmers to respond, we decided we had better not do that again so we put our own consultation paper out to all the growers, and in fact we have had a lot of responses back. We have tried to analyse those and one of the questions we asked was, “If you do not grow sugar beet what will you grow?” Clearly this was an interesting question because sugar beet is what we call part of a rotation, it is a crop which breaks up mono-cropping, it breaks up having continuous other crops and it breaks a disease pattern, et cetera, so it is very important; equally so are potatoes. We asked that question and, interestingly enough, something like 80% came back to say that they needed either oilseed rape to make another break crop or it would be winter wheat, so effectively going back into some other form of mono-cropping if you like. The concern around that is, in fact, you are not getting a proper break crop into the system, although oilseed rape is. Clearly, if they all went down that route, and you took sugar beet out altogether, and removed 150,000 hectares, shall we say, out of the UK, you would finish up then by totally damaging the markets which already exist, so you might finish up with another million and a half tonnes of winter wheat, a million tonnes, if you like, of oilseed rape—those are not quite the right numbers, but you get the impression of where I am coming from—so you would totally destabilise the other markets that already exist. It is quite a frightening proposition.

Q171 Mr Vara: The Commission’s reform proposals make several references to improving efficiency and to try and ensure that the less competitive producers are encouraged to leave the sector. In fact, I believe the NFU’s long term aim is in the same direction. If I may just use a quote from the NFU it says that: “... production must be allowed to gravitate to the most productive regions...”. 12 Do you feel that the reform proposals do enough to favour the efficient growers in the European Union? If not, how do you think the proposals could be improved?

Mr Bennett: I think it was very important. The thing which worried us the most about the proposals in terms of the reform at the start was would there be quota cuts because that would work against the efficiency. We at the NFU believe that production in the modern world we live in does gravitate towards the most efficient in Europe anyway, this is across all the sectors. If we had gone down the line of the Commission’s proposal of quota cuts, I think that would have been the death knell of the European sugar industry because the only way we are going to get a European sugar industry in the world we have got, with tariffs coming down and access from other countries, is to allow the most efficient at least to try to survive within those terms. That is why we think the fundamentals of reform, we would argue with lots of detail, should be there are no quota cuts and we must not allow in any of the negotiations over the next few months for that to come back on to the table; that is absolutely fundamental to make sure that this reform goes in the right direction.

Q172 Mr Vara: If I may, Mr Bennett, of course they are proposing the efficient countries be given an additional quota and for Britain it is proposed that there should be an allocation of around 83,000 additional tonnes of quota. Are you happy with that or do you feel it ought to be more? Do you think it is fair?

Mr Bennett: First of all, it is inevitable. This reform is not an easy one because inevitably we are talking here about some people going out of sugar production and some people’s businesses suffering because you are talking about reducing sugar production in Europe. What we feel in the UK is that if you get the reform right that we are reasonably well-placed to take advantage of that. Yes, take advantage of the quota. Indeed, at the start of this reform process, we were supporters of transferability of quota—full stop—around Europe. If you are genuinely going to have a liberalised market in terms of the European sugar market the next step will be that quota can move to the areas that are best in terms of production. In terms of the 80,000, we would wish to use that because we want to keep our production base up in this country post-reform.

Q173 Mr Williams: Do you think that 80,000 tonnes though is a fair amount for the British sugar industry? It is dependent, as I understand it, on the fact that our ‘C’ quota is relatively small.

Mr Blacker: British Sugar will probably be able to help you a little bit more with that in a few moments. Certainly, as I understand it, it is worked out on a particular equation and that involves the amount of ‘C’ quota that you have made in previous years. It is done like that.

Q174 Mr Williams: You would basically say it is a fair amount in terms of dividing it up amongst the sugar producers in Europe?

Mr Blacker: It reflects the state of the industry as it is at the present time.

Q175 Lynne Jones: You have raised and answered questions about the ownership of the additional sugar quota. Since you have submitted your evidence have you received any further information? What is your current understanding of the situation? How important is it that this is resolved before the negotiations take place?
Mr Blacker: That is an important question to us and I guess this came out of the first proposal which came from the Commission where effectively the way it had been written suggested that the quota was owned by the processors. I think one of the things that we argued at great length with the Commission was that part of their original proposal suggested that everybody was part of a co-operative, they had not really thought that there was a monopoly processor or a single processor in any other country which made life rather difficult. We had long debates with the Commission, I can tell you, to get to the next stage. We believe—and I hope British Sugar will say the same—that the Government is the custodian of this quota. We believe that the processor is the person who manages it on a day-to-day basis and as growers we have delivery rights to that and as long as we achieve those delivery rights year-on-year we can maintain those. That has been the case as long as I can remember. That is what I believe most of us in this industry understand it to be and that is what we would like it to be in the future so that it is, in fact, a partnership arrangement in order that no-one can dismember the other. The present situation, if we finish up in a situation where the processor is the owner of the quota then one single board room decision could take the whole industry out, we do not believe that is good.

Q176 Lynne Jones: You said you were in favour of transferability. I do not know between whom. What about farmers having some kind of bond which they can then try and sell in terms of the ability to produce?
Mr Blacker: If you like you can call a delivery right a bond. I have a delivery right of 1,000 tonnes on my farm, that means that if we come to the point of having another scheme like we had a few years ago in 2001 where we had a reorganisation of our industry, you could trade one bond against another. If you were someone who believed that your cost of production was very good and you were a good producer and I decided that I could not do it anymore then in fact you could buy mine from me. It is a bit more complicated than that but that is the simple answer.

Q177 Lynne Jones: At the moment—forgive my ignorance—do individual farmers have these delivery rights?
Mr Blacker: All farmers have a delivery right, yes.

Q178 Chairman: All those who are contracted?
Mr Blacker: Yes, indeed.

Q179 Chairman: Not the universal.
Mr Blacker: No. They have a contracted agreement with their processor.

Q180 Chairman: Can I just follow on from Lynne’s line of question because in paragraph 5.11 of your evidence you talk about—and I quote—“Will the government acquire this tonnage . . .” that is the 82,847 extra tonnes of sugar quota “. . . on behalf of the industry, without seeking to recover any of the cost of acquisition from the processor or grower? If not, on what basis will a contribution be sought from the process and/or grower?”13 Would you like to develop that because it is great the thought of getting some more quota but if the Government is the custodian, the farmer is the producer and British Sugar in this case is the processor, how is the trick to be pulled to acquire it? What happens if the Government says we have not got any pennies in the Government coffers to buy it, what is the solution?

Mr Blacker: I guess this is, in my mind, an example of the problem to some degree that we have, the fact that the Commission have chosen for their own reasons not to specifically rule on this in my opinion. I think we know what will happen at the end of the day but clearly there is nothing in this that says who does these things. Therefore we are in a bit of a dilemma, we know that we have this available to us, we know that British Sugar are very keen to have it as part of our portfolio, if you like, of an extra 83,000 tonnes and we believe that at some point somebody is going to have to buy it, and that may well have to be British Sugar.

Q181 Chairman: Can I just be clear, when we talk about the extra, this is not an increase in terms of the whole of Europe’s production of sugar from beet, it is a reallocation of what they think will be the market effect in the less efficient areas freeing up a total for which some growers who are coming out will get compensated and those fishing in the pool remaining will get some of the benefit. If I have understood it correctly, it is the current regime participators who pay for the people who are leaving, is that right?

Mr Blacker: That is around it, yes, it is the current people who pay for it so there is a difference in the middle between the price to the consumer and the price that the growers and the processor gets.

Q182 Chairman: Who puts into the compensation pot, where does that money come from?

Mr Blacker: Eventually that would come from the consumer. The consumer would still pay the same price for a period of years but the grower, the primary producer, would get his price dropped dramatically over a period of two years, then the processor would get a reduced price as well and then the piece of money in the middle would be going into the pot for the restructuring.

Q183 Chairman: There is a compensated restructuring pot. Why is there a need to buy back, in other words a second payment? Why does a second payment have to be made, we have already paid for the compensation once.

Mr Blacker: That is not quite the same. That is part of paying some money into the pot because in fact the 83,000 or the one million tonnes has to be bought out of the pot at the same price that the fund is going to be refunding the growers to go out or the
processor to go out. It is money that goes into the pot to help refund that as well, so part of that is doing the same as the consumer money.

Q184 Chairman: What happens if the Government says to British Sugar “You boys are going to be the direct beneficiaries of 82,000 tonnes a year more of beet to process, you boys pay for it”? Is that feasible? They are on next.

Mr Blacker: They are on next so you can hear what they have to say, I am sure you will be able to ask them the question directly.

Q185 Chairman: Do you think they ought to pay because no farmer ever wants to pay anything.

Mr Blacker: I think the things we put in the document were asking the question because it is a grey area, we do not know the answer to it.

Q186 Chairman: I think I know the answer but who do you think ought to pay?

Mr Bennett: Chairman, with respect, if it was a really good liberalised economy this should be effectively a market place movement and the people who want to grow the sugar should take on purchasing. In a sense this is an artificial mechanism at this stage of the reform. Finally what we want to do is make sure there is a sugar industry at the end of this in the UK which wants to produce this tonnage, that is the most important thing of all but you are right there has to be a discussion about who effectively dips in their pocket for this extra tonnage. The most important thing for us is that we wish to use it because we have got an industry that we would want to go on between the processor and ourselves to use this tonnage; that is the most important thing of all.

Chairman: I can see British Sugar reaching for the company chequebook already. Roger Williams will carry on with the questioning.

Q187 Mr Williams: You set out in your written evidence how, because of historic reasons, Britain has been dependent on cane sugar and we have ended up with less beet quota than some other European countries, but you also went on to say that because of that the price reduction will be discriminatory against the UK. Could you explain that to us?

Mr Blacker: It is quite a complicated issue. Here I want to talk in beet terms rather than sugar terms and you know that sugar is going to be reduced by 39% in this proposal and in beet terms it is 42.6%. Clearly what the Commission have done are two or three things. The first one is they have left in place a thing called the Production Levy which was there historically to help manage the system and, if you like, to put surplus sugar on to the world market and restitutions, et cetera. They have left it in place which is €12 per tonne of sugar, which is 70 some pence per tonne of beet. They seem determined not to move that for whatever reason they believe in. Equally, they have decided that they want to merge ‘A’ and ‘B’ quotas together. Whilst this might be a logical way of moving forward, within the Community we have different sized ‘B’ quotas, so the UK has a 10% ‘B’ quota and if you move as far away as Denmark they would have a 29% ‘B’ quota. By merging these two together and then removing the 42.6%, or them doing a different sum on that figure, we finish up with a smaller ‘B’ quota, more disadvantaged than countries with a large ‘B’ quota. I guess part of that comes from the initial Commission document where they suggested rightly or wrongly—we would say wrongly—that countries with large ‘B’ quotas were in fact more efficient than countries with small ‘B’ quotas. It all revolves around this package. Those two bits together mean that we are disadvantaged quite dramatically. There is another issue that talks about moving to a reference price rather than an intervention price and if the physical price drops below the reference price then negotiations can be done to allow the processor to claim up to 10% of that back again in theory just to keep factories open if money gets very low. Quite where the grower fits in with that I have no idea at this stage. If you were to take all of those things together and add them up we could, in fact, finish up with more than 50% take off. It is quite draconian.

Q188 Mr Williams: From the UK point of view, what is the solution? How would you put forward amendments to the proposals to satisfy the UK situation?

Mr Blacker: We want a balanced one. We want to be on the same layer as everybody else wherever it might be. If you like, we want to avoid any form of distortion because it is wrong if one country has a massive advantage over another country in my opinion. We have been trying to work on the Commission to change that but have failed at this point. We shall think of other ways of trying to get that to happen. Maybe talking to you guys might help us a little bit. We have to start to employ other ways of doing it, frankly. The European Parliament has obviously taken this cudgel up in the last few weeks and they have put quite a lot of amendments into the proposal which I guess we will see coming out in the next few weeks.

Q189 Mr Williams: From the UK point of view, should we just be dealing with the ‘A’ quota rather than the merge of ‘A’ and ‘B’ quotas?

Mr Blacker: No. We are saying you can merge them together, we do not have a problem with that, but we do not want to finish up being worse off by that happening, which is effectively what is going to happen. We are going to see a larger price cut than countries with a higher ‘B’ quota.

Mr Bennett: It is a key point that we made to the Secretary of State in earlier negotiations.

Q190 Chairman: She is not doing the negotiations, she is chairing the Council.

Mr Bennett: But she is still Secretary of State.

Q191 Chairman: She is not negotiating.

Mr Bennett: The Minister who will be sitting in the chair for us will talk to the Secretary of State as we have talked to that Minister as well.
Q192 Mr Williams: I can understand what you want for the outcome but I am still not clear as to how you would like to change the proposal.

Mr Blacker: It is a question of how we do the maths at the end of the day, I suppose. We have to work with the Commission and the Government to work out how that can be done.

Mr Bennett: Could I suggest on this particular issue that we write to you with a note about how we feel this could be done in a better way.

Q193 Chairman: That would be very helpful. Am I not right, just for the record, that the problem that we have with (a) our total quota and (b) the split between ‘A’ and ‘B’ goes back to the history of what happened with growing sugar beet before the regime was established? My memory tells me that sugar beet was not exactly the world’s most popular crop prior to the CAP starting, is that right?

Mr Bennett: It was a crop that in the late 1970s and early 1980s was still an extremely physical crop. We were still doing things called side hoeing which was going through it mechanically and we were hoeing by hand to take out every other plant or whatever. It was a very, very physical crop. A wonderful thing came on the horizon that painted the whole countryside yellow called oilseed rape that you have all seen, and some hate it and some love it. This crop was going to be a revolution for farming. It came on at a crazy price of about £300 a tonne and everybody thought, “This is fabulous. You can do this off a tractor seat or a combine seat and you do not have to get muddy in the winter” and a lot of people decided to opt out. It was a very short lived experience and one that a lot of people regretted. Frankly, two years after that when a lot of people had got out they were all clamouring to get back into sugar beet growing again. It was a total and utter disaster that did not help our industry, frankly.

Chairman: I am afraid not even the powers of this Committee can rewrite the accidents of history but it is just worth having that information.

Q194 Daniel Kawczynski: I would like to ask these questions because I have almost 100 sugar beet producers in my constituency of Shrewsbury & Atcham and it is something that I feel very strongly about. What would be the impact on UK producers of a compromise which allowed other countries to maintain some element of coupling with their sugar payments? Secondly, how much money would a UK beet grower stand to lose from a decision by Defra to spread the sugar compensation monies evenly across all eligible land in England?

Mr Bennett: The first one is dead simple. We have to have complete decoupling within this reform. To allow partial coupling where the signal effectively is to produce if you can produce it at a cost where it is profitable, if that gets lost and you have some countries partially coupling then this reform will not work well ultimately. It is one of the key principles that we have asked of our Government, that this has to be fully decoupled.

Mr Blacker: We would like to see that extended to all other Member States.

Mr Bennett: It has got to be fully decoupled across all the countries involved.

Q195 Daniel Kawczynski: So far in your discussions with Defra have you been given assurances that will happen?

Mr Bennett: From the Defra point of view, because of their past commitment to decoupling, they would want all of this to be decoupled. It is pretty essential in terms of getting the right signal to the most efficient that it is decoupled right across Europe. We were very, very strong on this with Defra and the Commission, that you cannot reform and effectively send signals to the most efficient to be part of the future of growing sugar if you allow some Member States to have partial coupling. They have allowed that already in my opinion in the flawed reform of the Council of Luxembourg which is already showing distortions and that is not acceptable.

Q196 Daniel Kawczynski: What about the second point? How much will my Shropshire sugar beet farmer lose if the compensation monies are not guaranteed in this way purely for them?

Mr Bennett: What is absolutely critical in terms of the way that compensation is handed out is when you move from a supported regime to a decoupled regime it is inevitable in the first few years, even if the money is decoupled, that subsidy/support is inevitably still part of their process for one, two, three, four or five years. What is critical about the compensation to British growers is it should not be any less than the most efficient competitors that we would face across the water. Everything we have done in terms of talking to Defra and the Commission, particularly Defra on this issue because it will be a Member State area, is that the French sugar beet producers should not receive any more compensation than the British ones, certainly in the early years, otherwise that is not a genuine reform to allow the most efficient to survive. Your question about how much money is an almost impossible one to answer. We have already had many discussions about this because we are aware of the historic model in some parts of Europe of the regional Single Farm Payment type of model. It is absolutely critical, it is a principle of ours, that our sugar growers will not be disadvantaged against their French competitors.

Q197 Lynne Jones: Does your position differ from Mr Wage’s position and the Dutch beet growers?

Mr Bennett: I did not hear what his position was.

Lynne Jones: Maybe I misunderstood him but I understood that he did want to have some coupling.

Chairman: He wanted some partial early years coupling.

Q198 Lynne Jones: But set at recent levels to ensure that farmers who got out of sugar beet growing did not benefit.
Ms Kirkman: My interpretation was that initially, and it still may be a position they return to, they supported the principle of decoupled compensation. However, in looking at options of coupling the compensation what they are doing is accepting and acknowledging the inter-dependence there is between producing the crop and processing the crop. Equally, we acknowledge that there is a very close relationship but coupling the compensation in our position is not the way of achieving that. That was my understanding.

Chairman: Good. Everybody is nodding. Are you happy?
Lynne Jones: Not really.
Chairman: If you are not happy, why not?

Q199 Lynne Jones: I may have misunderstood Mr Wage’s position then.
Mr Bennett: Our position is quite clear. We want full decoupling. Effectively, if we are moving into a marketplace then that allows the growers to grow the crop or not.
Chairman: Have a think about it. Roger just wants to come in with a quick supplementary.

Q200 Mr Williams: If you do not believe that coupling is the way to ensure the delivery of beet into the processing factories, what do you base your policy on?

Ms Kirkman: Commercial negotiations.

Q201 Lynne Jones: You seem to want some kind of coupling for the additional quota. That is how I understood what you were saying.

Ms Kirkman: I am sorry if we have given you that impression. I think the concern we would have is that it is not about acquiring additional quota because we want to keep our quota or possibly increase it. The concern we would have potentially on acquiring new quota is the control of that quota. I do not think we would be in a position now or in the future to be talking about coupling or a separate set of circumstances prevailing over that new quota if and when, as a country, we purchase it or acquire it.

Chairman: If you have still got a question we are happy for you to answer it before we produce our report, but I have to say that I did understand the point you were making.

Q202 James Duddridge: I am interested in some of the practical impacts of the proposed legislation if it goes through, and if possible putting some numbers on it. There seems to be resistance to really bolting down some numbers. I understand it is difficult to do but I am particularly interested if the legislation goes through, or the reforms go through, what will be the number of areas that come away from producing sugar, the number of farmers who take a decision not to produce sugar? That is the first one. Secondly, among the number of employees who are currently engaged in the cultivation of sugar beet here in the United Kingdom, what would the reduction be? Thirdly, and I think you will have to be less specific on this, will there be a shift in production from existing areas closer to where the beet is actually being processed in the factories?

Mr Blacker: Let us start off with how long is a piece of string. I guess in my mind the price will dictate what happens. The price of the crop back to the grower will dictate what happens to this crop. We have our national quota. We have, as you have heard, the opportunity to buy another 83,000 tonnes. Clearly that will only be grown by the people who believe that they can make a margin out of it at the end of the day because if there is no margin there and there is no money for reinvestment there is not a lot of point in doing it, frankly. When I mentioned to you the cost of production earlier on and the Defra figures ranging from £19 to £28, clearly anybody who is in the top bracket of that will not be able to grow sugar beet, let alone want to do it. In the first instance, we shall see a form of restructuring within our own country so that the ones that are good will acquire some more and the ones that are not will want to remove themselves from it. If you were to take the ultimate situation and nobody grew it, then that would be a major, major problem. In the first instance, let us assume that we are going to continue to grow our national quota because we are very bullish, that is where we want to finish up, you will see a quantity of farmers going out, and I do not know the answer to that. You will see labour going out on farms because sugar beet is an integral part of the farmers’ life, it helps to balance the year. If you were only growing cereals you would not need any staff necessarily for all of the year, most farmers have all of their corn back in the ground now, and when, as a country, we purchase it or acquire it.

Chairman: If you have still got a question we are happy for you to answer it before we produce our report, but I have to say that I did understand the point you were making.

Q203 James Duddridge: Are there any particular regions that are likely to be harder hit in the United Kingdom?

Mr Bennett: What we do know—it is basic economics—is that we are of the belief that the tonnage will keep up but the area grown will be less. If you are talking about efficiency, efficiency means less jobs, so right the way through the industry the more you make yourself efficient the more you make labour efficient as well and inevitably there will be less employment. Let us be straight about that. Part of that efficiency gain in terms of being closer to factories is part of the discussion that will inevitably happen post this reform. Sorry to be a bit vox pop on that, but that is one of the fundamentals that we believe this reform will bring.
Mr Blacker: If you think down the route that we are not going to grow any sugar beet because we cannot afford to do it anymore then you are probably going to see about 15,000–18,000 jobs disappear, so you will see serious numbers there.

Q204 Mr Drew: I just wonder what analysis the NFU has done about diversification from sugar beet. Obviously Tim’s predecessor is just about to release his report on biofuels, which we will be looking forward to with great favour. I am interested in the degree of joined-up thinking here. Whatever happens there is going to be a reduction in the amount of sugar beet grown and prices are going to edge down. What diversification is possible?

Mr Bennett: I do not necessarily agree with you that the tonnage of sugar beet will go down. The point I have made is with efficiency gains I think the area could change. One thing we are bullish about is biofuels. Bioethanol and biodiesel is a great opportunity for this country and fits in with the climate change beliefs of the Government. We are already some years behind others who do not believe in climate change, such as the Americans. Hopefully we are going to see quite significant moves in terms of that industry in the next few months because an awful lot of people are interested in making sure we do have an area there. I think Ben Gill is going to bring out his biomass report this week but biofuels, which is a separate issue, is a really great opportunity. Although I think bioethanol is mainly going to be wheat, if I may say so, I think this is a great opportunity for diversification of land use. We see this as a major, major land use in the next few years.

Mr Blacker: But not in its present form.

Mr Bennett: No, not in its present form. That is why we all know that the only way to gain this work is we are looking for a Road Fuel Obligation as other countries do.

Chairman: We will pursue that in our next questioning.

Q205 Mrs Moon: I am interested in what you have said because, again, I think I have misunderstood what Mr Wage was saying. My understanding from his presentation was that he saw the use of sugar in terms of bioethanol as a win-win situation but you are saying that, in fact, you do not see that the sugar will be used in bioethanol as much as cereal and it is cereal that is going to be the major crop that will be the source for fuel. Given that a lot of pressure is on to reduce our sugar production, why can the move that you suggested earlier into further winter wheat not produce the cash crop that farmers are looking for? Does that make sense? Do you follow my point?

Mr Blacker: It makes sense, yes.

Mr Bennett: Basically, in terms of bioethanol, we think there might be an opportunity for some sugar but in the way we looked at the costings, we think most of it will go into wheat. In the UK conditions it seems to be the right crop to use.

Q206 Mrs Moon: An earlier question was around what are the alternatives and you actually said—

Mr Blacker: Sugar is not a winter crop.

Q207 Mrs Moon: If there is a problem in terms of the volume of sugar that we are producing then a winter wheat crop gives you an alternative.

Mr Bennett: I do not think there is a problem about volume. This reform has to take some volume out of the European Union. If the reform is the correct one it should take it away from the least efficient producers. If we are not as good as we think we are we will lose sugar production. If we are, as we believe we are, amongst the best in Europe then we do not particularly want to lose our sugar production and, to be put bluntly, someone else should lose it. We have got plenty of ground also to grow bioethanol crops. We export a lot of wheat and I would like to see us, instead of exporting that wheat, actually producing bioethanol; it is the green future.

Mr Blacker: Can I answer the other part of your question which really was why was I suggesting oilseed rape and wheat. This was the result of consultation that we did with growers. That is the mindset they have at the present time because that is where they believe they can get a return on their money. At the present time for sugar into bioethanol there is not a plant available at this moment although British Sugar have one in the pipeline. Equally, we have to add some more money to the farmer’s pot in order to persuade him to produce it for that reason.

Q208 Lynne Jones: Earlier you said that if the farmers switched into growing winter wheat that would interfere with the balance in those markets, but if it switches to bioethanol that should not be a problem, should it?

Mr Blacker: Perhaps not. I am talking about where we are today and bioethanol is still some way away. I feel very saddened that we are not following this debate a lot faster than we are because to me it seems crazy that here we are in a sugar reform arguing throughout the world over one particular cake when, in fact, there is another big cake over here that is going to help an awful lot of other things in the world and an awful lot of other people and we cannot seem to get our head around the second piece of cake. To me, it is a total and utter disaster.

Q209 Lynne Jones: Whose responsibility is that then?

Mr Blacker: I think you would need to talk to our world leaders, frankly. It is not for me to say.

Chairman: We have deliberated on that on many occasions in this Committee and you will find answers to that in many of our reports, I am sure.

Mrs Moon: Chairman, could I just ask a further question?

Chairman: I am just conscious of the fact that we have one more set of witnesses and we have a vote at seven o’clock. Let Shailesh ask his question and then we will come back to you.

Q210 Mr Vara: The National Farmers’ Union is critical of what is called the flexibility clause, which allows processors to negotiate a further 10%
reduction in the price they pay growers for sugar beet. To what extent do you feel that the balance of power at present is skewed in favour of the processor? What do you think Defra can do to improve the position?

Mr Blacker: I guess in terms of the 10% issue that you are talking about, we believe that the Commission have remained silent on the fact that if it went above ten% then the grower could get a share of that.

Ms Kirkman: Flexibility both ways, in fact.

Mr Blacker: The Commission have remained silent on that issue to the best of my knowledge, which has not helped our thought process in this direction. We are a bit frustrated by that. The balance of power: you heard from Mr Wage earlier on about views from Holland that, in fact, quite a lot of it is co-operatives where there is a sharing out here and a balancing out. As we go forward we have to address that issue very, very closely because if we do not then we are going to be in serious trouble. Our processor cannot manage without the growers; equally, the growers cannot manage without the processor. I would love to form some kind of genuine partnership as we move forward to make sure that the balance of power is equal and the rewards and, equally, the risks are shared a little bit more.

Q211 Mrs Moon: I wanted to ask you a question in relation to the agri-environment scheme which in particular the RSPB feels is another way of mitigating against some of the reforms that you are not happy with but which they are for. I wondered what your comment would be. They are suggesting that you could promote spring sown crops rather than sugar beet production. What would your response be to that?

Mr Blacker: At the end of the day it is economics and the farmer is not going to grow something any more if it is not making him any money. There are not any other spring sown crops at this stage that would replace that. Sugar beet is a spring sown crop and it is quite valuable to the environment. The quality of life bird indicators that the RSPB does suggests that a lot of birds within that are part and parcel of the sugar beet growing areas, which is very, very important. We did you another attachment on the back of our document showing you the Brooms Barn paper on the environment, which to us is very, very important here.\[14\] We have not talked about all the other issues. We have made massive strides in terms of the environment going forward. We put all the chemicals and insecticides in little tiny pellets now which has removed 90% of insecticides from the ground, it has targeted them. On my farm we do a thing called precision farming where, in fact, all the fertiliser is applied by global satellite. We are only applying the fertiliser that we need to apply in the area we need to apply it accurate to less than half a metre. All of these things are going on. Our industry is moving on dramatically but it has to be helped. We heard Mr Wage earlier on say—I repeat this again because to me it is very important—that all the time in those 30 years they have managed to keep in the game because they have been able to invest in the industry and to make it more efficient and the same applies today.

Q212 Chairman: I now know what the Milky Way is, it is a cloud of these little pellets coming down. That is absolutely fascinating. Can I thank you very much for your evidence and the comprehensive written submission, which was much appreciated. We have benefited from what you have had to say to us, so thank you once again for contributing to our inquiry.

Mr Bennett: Thank you, Chairman. I did say there are a couple of notes we will add on to that and we will supply those to you.\[15\]

Chairman: Thank you very much indeed.

Memorandum submitted by British Sugar PLC

1. EXECUTIVE SUMMARY

1.1 The UK beet sugar industry has improved efficiency dramatically over many years in order to be in a position to compete in anticipation of reform.

1.2 British Sugar broadly supports the European Commission’s proposals which offer a balanced reform. We would not support a longer timescale than proposed as this would lead to an unstable and unsustainable market.

1.3 It must be clearly understood that the consequence of the radical reform that is being proposed will be to introduce an equally radical structural change in the EU market. The market in individual country terms or to assign any relevancy to whether sugar is derived from either beet or cane.

1.4 The price reductions proposed by the Commission are unnecessarily severe to meet the objectives of reform to retain an efficient, competitive and sustainable EU sugar industry.

1.5 Decoupled grower compensation must be consistently applied across the EU and given to beet growers.

1.6 The ability of the proposed Re-structuring Scheme to take out 5–6 million tonnes of EU production quota will be fundamental to the success of reform.

\[14\] Not printed

\[15\] Not printed
1.7 The removal of significant volumes of sugar beet production in the UK would have a negative environmental impact, especially on biodiversity.

1.8 Provided costs are controlled and work continues to improve productivity, British Sugar is confident that the UK beet sugar industry will be competitive within the EU in the future.

1.9 Moves to offer further assistance to cane refiners than are already offered in the Commission’s proposals would be unjustified and would risk severely upsetting the cane/beet balance in the Sugar Regime.

2. THE UK BEET SUGAR INDUSTRY

2.1 Over the last 25 years the UK beet sugar industry has invested heavily to improve efficiency. Sugar beet crop yields have been increased from a 5-year average of 6.5 tonnes of sugar/hectare to an average of 9.6 tonnes of sugar/hectare in 2002–04 (Annex 1). This 50% improvement in productivity has been driven by a series of targeted initiatives for which quantified objectives have been agreed on behalf of the whole industry and systematically pursued. In recent years these have included: improved crop quality, more effective crop storage techniques and earlier national planting dates. Crop costs have been similarly targeted and driven down. Targeted initiatives here include reduced fertiliser and chemical applications, precision-controlled pesticides technology and grower performance analysis.

2.2 The effect of this improvement has been to progressively improve the UK industry’s ranking in EU sugar beet productivity. In the last decade UK sugar beet yields have normally been ranked in the top 4 of EU Member States. A typical example is in 2004–05 where the UK final yield of 10.4 tonnes of sugar/hectare compares with a European range of 4.8 to 12.2 and a weighted EU average of 9.1 tonnes of sugar/hectare (Annex 1).

2.3 In this context, British Sugar would wish to correct the impression given by Table 3 of DEFRA’s Regulatory Impact Assessment (p 29). UK sugar yields (as opposed to beet yields), which take into account beet sugar content and extraction rates, are the normal measure of efficiency as used by the European Commission. Here the UK ranks the same as Belgium and the Netherlands and only just below those of the best in France.

2.4 On the processing side of the industry, British Sugar has invested over £1 billion (€1.4 billion) to improve efficiency in the last 20 years, and is continuing to invest an average of £35 million a year at the moment. The number of operating factories has been reduced from 17 to 6, and productivity has quadrupled from 180 tonnes of sugar produced per employee each year to 780, over the same period (Annex 2).

2.5 In co-operation with growers, the length of the processing season has been gradually extended due to a combination of increased crop yields and factory closures. The UK “campaign length” for crop processing of about 150 days compares to about 90 days for the rest of the EU15, and an estimated 85 days for the EU25. Increasing campaign length makes better use of the fixed assets used in the business, so is an important indicator of efficiency.

3. A STRUCTURAL CHANGE IN THE MARKET

3.1 Although broadly balanced, the Commission’s proposals are radical and hard-hitting. All industries in the European sugar sector will be affected by this change, and many will be forced to rationalise or close down altogether. British Sugar believes that this drive for greater competitiveness, which it fully supports, should apply across all EU Member States and to all related sectors of the industry.

3.2 An inevitable consequence of reform will be greater concentration in the EU sugar industry and the remaining industries will serve the overall European market. National barriers for both markets and competition will become increasingly irrelevant. In the same way, on the understanding that the EU’s commitments to the ACP (African, Caribbean and Pacific countries) and the LDC (Least Developed Countries) must be met, the provision of sugar from beet or cane will cease to be a policy concern, with the market being supplied by those who are the most competitive.

4. THE EXTENT OF PRICE REDUCTIONS

4.1 Price reduction must be carefully balanced. The support price must be set at a level low enough to drive the Restructuring Scheme and help bring European supply/demand into balance, but high enough to enable beet to be grown in efficient areas of the EU.

4.2 Price reductions to €385 per tonne for sugar and €25 for beet are unnecessarily severe to meet the EU’s objectives, and would risk damaging even the most efficient industries in Europe, including the UK’s.

4.3 The Reference Price mechanism will not work effectively because experience in other sectors demonstrates that it will not put a definite floor in the market.
4.4 There is an intellectual inconsistency between a fluid market price and a fixed minimum beet price. If the market price reaches levels significantly below the Reference Price, processors will take the entire hit of a market collapse. Even the provision for a 10% adjustment (Article 51(b)) will make little practical difference.

4.5 To avoid the risk of market collapse at worst and serious instability at best, in the initial years while the Restructuring Scheme is being implemented and until the EU market re-stabilises, the Intervention Price should be retained.

5. TIMESCALE

5.1 British Sugar supports the timescale for changes as set out in the Commission’s proposals. The extent of the proposed reform is radical. Our view is that implementation should be introduced as quickly as possible to achieve the reform objectives and avoid uncertainty in industry adjustment.

5.2 We particularly welcome the removal of any mid-term review clause which would introduce uncertainty and hamper the reform process.

5.3 We would not support any moves to delay reform by other means. For example, the re-introduction of an element of re-coupling for grower compensation (see Para 8 below) or a more gradual transition.

6. THE EXTENT TO WHICH THE PROPOSED REDUCTIONS IN PRICE WILL BE TRANSMITTED TO THE CONSUMER

6.1 Historically, effective price reductions in the EU sugar sector have not been passed through to the consumer. However, we would assume that, with such dramatic price falls, some element would be passed down the chain. Where such savings would in practice end up will depend on the relative prices of other ingredients and food manufacturers’ and retailers’ perception of their own commercial interests.

7. THE IMPLICATIONS FOR UK AGRICULTURE, WITH PARTICULAR REGARD TO POSSIBLE ALTERNATIVE LAND USES

7.1 British Sugar agrees broadly with the section of the conclusions of the study by Cambridge University (“Economic, social and environmental implications of EU sugar reform”—September 2004) which covers the likely UK beet production response to various support price changes, and in particular the severe effects on UK beet production which would be caused by a 40% cut in beet price.

7.2 However, we would question the conclusion that direct and indirect employment is currently the equivalent of only 10,000 full-time jobs. A further independent study up-dating that of the University of Reading report of 1994 has been carried out by Professor Peter Midmore (one of the original authors) and concludes that between 13,000 and 18,500 jobs are created by the UK beet sugar industry, depending on the methodology used. An Executive Summary of this report is attached at Annex 3.

7.3 British Sugar would also draw the Committee’s attention to work carried out by Broom’s Barn Research Station on the Environmental Impacts of Sugar Reform attached at Annex 4. This points out that the environmental consequences of replacing sugar beet with winter cereal or potatoes are generally negative with particular regard to biodiversity (especially farmland birds), soil erosion and nitrate leaching.

7.4 British Sugar has been keen to see the development of a domestic biofuels industry in the UK as a way to reduce greenhouse gas emissions in the transport sector and to contribute to agricultural diversification. However, reform of the EU Sugar Regime should not be seen as providing a significant source of beet sugar feedstock for an emerging bioethanol industry. The volumes that can be produced from sugar will be small and significant bioethanol volumes will only come from cereals. In this context we would like to point out that the development of any reasonable sized market to comply with the EU Biofuels Directive targets will require the early introduction of a Renewable Transport Fuel Obligation.

7.5 In contrast with the beneficial effects of the UK beet sugar industry on the country’s economy, employment and environment, substitution of this production by expansion in countries with lower standards (like Brazil) would be highly damaging. We attach at Annex 5 the Executive Summary of a report prepared by the environmental consultancy Sancroft, on “The Brazilian Sugar Industry Environmental and Social Impacts.” This concludes that sugar cane cultivation caused the virtual destruction of the North-East Atlantic Forest and that further fragile and valuable ecosystems such as

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16 Not printed.
17 Not printed.
the Pantanal wetland and the Cerrado savannah could be under grave threat. Furthermore, the Brazilian sugar industry has been associated with widespread labour abuses and semi-slavery. Further expansion of the Brazilian sugar cane industry therefore has serious implications for both environmental and social standards in the country. This conclusion corroborates the evidence supplied by the RSPB and Birdlife International to the House of Commons Environment, Food and Rural Affairs Committee sugar inquiry of 2004, which warned that expansion of the Brazilian sugar industry would have devastating consequences for biodiversity, particularly in the Cerrado region.

8. THE PROPOSED ARRANGEMENTS FOR COMPENSATING EU PRODUCERS

8.1 At a minimum beet price of €25.05/tonne, beet supplies become critical, even in the most efficient growing regions of Europe like the UK.

8.2 Grower compensation must be consistently applied across the EU:

— De-coupling should be mandatory (as has been proposed by the Commission) and Member States should not be allowed to apply it “à la carte”.
— Beet growers should get the compensation in recognition of their loss of income.
— The reference years for calculating the compensation should be 2002–04 for the UK to take account of the reorganisation of the industry in the 2001 buy-out scheme for beet contracts.

8.3 Any suggestion that partial coupling should be permitted at the discretion of individual Member States should be strongly resisted. If it were permitted it would introduce competitive distortions doing particular damage to the UK. It would also frustrate the success of the Re-structuring Scheme, which is so vital to the success of reform of the sector.

9. CHANGES TO THE QUOTA ARRANGEMENTS

9.1 British Sugar did not support the Commission’s earlier concept of mandatory quota cuts at the start of the reform process. We favour the proposed Re-structuring Scheme as being more economically rational and in line with the efficiency and competitiveness objectives of reform. There should be no compulsory quota reductions during the re-structuring period.

9.2 We acknowledge that the relationship between the re-structuring aid and the Reference Price is one of fine balance. The key to the success of the Re-structuring Scheme will be the cancellation of sufficient quota (5–6 million tonnes) to bring the EU market into balance.

9.3 The merging of the “A” and “B” quotas will result in some price disadvantage for the UK as we have a relatively smaller “B” quota. Nevertheless the merger is a simplification of the regime. The comparative disadvantage to the UK should be compensated for in a commensurate increase in the UK’s financial envelope for grower compensation.

9.4 The proposal to increase isoglucose quotas are the maximum that should be included. The potential for success in re-balancing the EU sugar market is already finely poised. Calls for additional isoglucose quota should be resisted lest an already difficult task be made impossible.

9.5 British Sugar notes that Private Storage and/or withdrawal are the only market balance tools available in the event of an oversupplied market. If EU quota is cancelled (either through the Re-structuring Scheme or subsequent mandatory quota cuts) then oversupply can only come from imports. It is therefore imperative that imports should be managed as effectively as possible, assuming that LDC quotas will not be introduced:

— Safeguard measures should be made automatic and be quantified.
— Robust rules of origin should be implemented to prevent fraud.
— SWAPS bring little development benefit for developing countries and should be severely restricted though a net surplus requirement.

10. THE POTENTIAL IMPACT OF REFORMS ON UK-BASED SUGAR BEET PROCESSORS AND CANE REFINERS, AND THE LONG-TERM CONSEQUENCES FOR THEIR INDUSTRIES

10.1 As stated above (Para 6.1) beet supplies into British Sugar will become critical. The proposed price cuts are unnecessarily severe and if they remain at the proposed levels the production response will need to be carefully managed. Nevertheless, British Sugar remains confident that, provided costs are controlled to retain our efficiency and work continues to improve productivity, UK production can remain at current or even greater levels.
10.2 British Sugar would like to point out that cane raws can be refined highly efficiently in suitably located beet factories. These therefore offer a credible alternative gateway for developing country raw sugar exports to the EU. We would take issue with the implication of the comments in DEFRA’s Regulatory Impact Assessment which states (p 62) that current refining capacity in the EU is “a necessary outlet for ACP raw sugar.” Refining the full ACP Sugar Protocol quotas of 1.3 million tonnes could be accommodated within EU beet processing capacity.

10.3 As is strongly acknowledged by them, it is in the interests of ACP and LDC developing countries to be able to supply their raw sugar to as wide a range of customers as possible, as this is likely to improve their contract conditions and prices. It is against their interests to be restricted to only one outlet, eg full-time refiners, as proposed by the Commission in Article 29 (2). (See the attached letter from the Chairman of the Fiji Sugar Marketing Company—Annex 6).\(^\text{18}\)

10.4 The provision to restrict the ability to refine cane raws to “full time refiners” for 2006–07, 2007–08, 2008–09 and for the first three months of each of the following marketing years represents a major concession to current EU cane refiners. Taken with the rest of the reform package, this concession risks upsetting the cane/beet balance in the UK and the EU. Any further concession, in the form of some element of refining aid or other assistance for current cane refiners, would severely upset the cane/beet balance and should be strongly resisted. Further assistance should be unnecessary if, as DEFRA’s Regulatory Impact Assessment indicates (p 29), a cane refiner is “able to compete in a fully liberalised market”. In such a case the refining margin afforded by the Commission’s proposals as they stand would be more than adequate to give returns competitive with those in the beet processing sector.

10.5 British Sugar believes that there may be a case for including refiners at the end of the Re-structuring Scheme. While an exception would have to be made for quota cancellation (access for ACP quotas is an on-going commitment of the EU and could not be cancelled), offering re-structuring aid to cane refiners wishing to exit in the event that reform produced conditions in which they could not compete, would be equitable. ACP commitments would continue to be honoured across the EU through beet/cane co-refining.

British Sugar

September 2005

Annex 1

UK SUGAR BEET PRODUCTIVITY

UK Sugar Beet Productivity
UK Sugar Beet Yield Trend 1981 - 2004

Sources: DG Agriculture worksheets and UK industry database

\(^{18}\) Not printed.


**Suger Beet Productivity - EU25 Ranking 2004/05**

- Source: European Commission report on the European Sugar Sector, incorporating UK final data for 2004/05

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**Annex 2**

**UK PROCESSING PRODUCTIVITY**

**UK Processing Productivity 1980 - 2004**

- Source: British Sugar technical database
**BRITAIN’S BEET SUGAR SUPPLY CHAIN**

A Report describing the Economic Impact of the British Beet Sugar Industry in 2005  
by Professor Peter Midmore and Dr John Strak—June 2005

**EXECUTIVE SUMMARY**

This report aims to describe and to analyse the British beet sugar supply chain in 2005 and to update the employment and income generation effects found in an earlier report in 1994. A key objective was to estimate the number of jobs directly and indirectly created by the production and processing of sugar beet to produce sugar and its co-products. An examination of the quality of jobs involved in the supply chain was also undertaken.

The beet sugar supply chain directly involves around 12,000 different firms—of which about 7,000 are farming businesses.

Gross Value Added (GVA) per employee in the sugar manufacturing sector is around £124,000—which is about three times the average GVA per employee in food manufacturing and more than twice the GVA per employee in the IT sector.

British Sugar is probably the largest single customer for the engineering sector in the East of England region with an annual spend of around £75 million. Likewise, its spend on transport (£31 million) and contractors (£32 million) make it a major customer for many businesses, while farmers receive over £250 million annually for the sugar beet they supply to British Sugar.

British Sugar’s operations extend well beyond sugar beet processing and sugar production. Sugar beet production on the farm leads to sugar production in the factory when combined with inputs of R & D, engineering technology, chemicals, energy, labour and management skills/technical knowhow. Co-products include: reclaimed aggregates and topsoil (branded as TOPSOIL), lime (branded as LimeX), high efficiency low carbon electricity supply to the local grid, inputs for other industries such as molasses for fermentation and beet pulp for the animal feed industry, tomatoes, and hi-tech biotechnological extraction operations to produce betaine and raffinate. Scientific and technological operations dependent on sugar beet include Germain’s beet seed pelleting operations and the BBSRC Broom’s Barn Research Station.
British Sugar’s operations emphasise environmental best practice through recycling, re-use, effluent control and waste minimisation. Nothing is wasted that can possibly be re-cycled, including even residual heat and CO₂ used for tomatoes at Wissington. While sugar beet contributes to the sustainability of arable farming through its importance as a rotational crop.

The beet sugar supply chain information available from British Sugar was utilised in a standard input/output methodology that enabled the calculation of the number of jobs in, and associated with, the beet sugar supply chain.

A recent estimate of c 6,600 jobs created in the beet sugar industry, by the University of Cambridge (2004), is rejected as being implausibly low and based on inadequate data.

We estimate that almost 13,000 jobs are created directly and indirectly by the activity associated with the beet sugar supply chain. This estimate rises to around 18,500 jobs if the induced effects of employment in the beet sugar industry are included. These estimates indicate that the beet sugar industry has continued to improve its productivity since 1994, when an estimate of c 23,000 jobs was made. The fall in jobs since then has occurred without affecting the overall level of sugar output and whilst several new co-products and services have been developed. This implies that the investment in skills and technology in the beet sugar supply chain has been both substantial and effective.

According to ONS figures, 55.4% of employees in the UK sugar manufacturing sector have a higher education qualification. This compares with 24.8% of the general population of working age, 16.8% of the food and drink manufacturing sector in the UK, 13.7% of the food and drink manufacturing sector in the East of England, and 8% of the industrial workforce with a higher education qualification.

We assessed the quality of jobs in the beet sugar supply chain by different methods. In the national approach, the beet sugar industry is shown to create more jobs at higher earnings levels than the food industry generally. In local comparisons, an employee in a British Sugar factory has an 8 in 10 chance of being paid above average earnings, compared with a worker outside the factory gate who has only a 3 in 10 chance of obtaining above average earnings. It is clear that the beet sugar supply chain employs workers who are paid above average and who are highly skilled.

British Sugar

September 2005

Witnesses: Dr Mark Carr, Chief Executive Officer, Mr Chris Carter, Director of Corporate Affairs, Ms Clare Wenner, Political Adviser, and Mr Simon Harris, Adviser, British Sugar, examined.

Q213 Chairman: Can I move to our final group of witnesses with just a small preface to remind colleagues that there will be a vote at approximately seven o’clock so I am going to draw the session to a close two or three minutes before then to allow people a chance to get to the division lobbies. Can I welcome on behalf of British Sugar Dr Mark Carr, the Chief Executive Officer, Chris Carter, Director of Corporate Affairs, Mr Simon Harris, their Adviser, and Clare Wenner, their Political Adviser. Can I thank you for your written submission and for coming to join us and give us the benefits of your views on sugar. I gather that you want to make a short opening statement, so it may well be that it answers the first question I was going to put to you, which is how content are you with the reform package which has been put forward by the Commission?

Dr Carr: Thank you for that, Chairman. Perhaps if I may just make a few opening remarks and then we will take your questioning directly. Firstly, we would say that the European Commission’s objective on sugar reform repeated in their most recent note of 14 October established a principle which we would wish to endorse. It stated that: “The overarching objective of the proposed reform of the EU sugar sector is to develop a sustainable future for the EU sugar industry by enhancing competitiveness whilst attaining a sustainable market balance in relation to domestic production levels and its international commitments”. As I say, on the basis of that principle, we would fully support that as an objective for the Commission, but saying that there are a number of issues that go with that. If you are going to have those sort of objectives, it is quite clear to me that a very progressive reform indeed is required to meet the objectives and inevitably that will involve some significant and major changes for the European industry. The second point is we also support the UK Presidency and the European Commission in their aim of securing a swift outcome to these reforms. Our view is that delays will bring further uncertainty to an industry which ultimately will be extremely damaging. The reform proposals are radical as we see them structured today and will have a substantial effect on our British Sugar operations, including our profitability, despite being one of the most efficient industries across Europe, as we established earlier on today. There is associated with that a specific challenge for all European industries, including ours, which will be how to secure adequate beet supplies at such low minimum beet prices. We would contest the main focus in moving these proposals forward is arriving at an equitable solution to achieve the objectives as laid down. Equitable in terms of the opportunity and fair terms established for those wishing to leave the industry but also equitable in terms of providing an opportunity for those who wish to remain to invest for the longer term. In the context of the radical proposals presented, British Sugar are planning to
continue to operate and not avail ourselves of the
attractive and predictable restructuring scheme that
is available within them. That is really on the basis
that Member State distortions are not introduced
for the sake of compromise in the latter stages of this
programme, unreasonable restrictions are not
placed on the development opportunities of the beet
sector and further concessions are not introduced
for the refinery sector which artificially distort
competition between the beet and cane sectors. Our
principles are that we fully support the objectives but
we will be looking, and are looking, for equitable
outcomes and equitable application of the proposals
contained therein. If I move to your first question
about how content are we, I think essentially—

Q214 Chairman: It sounds like you are grumbling
and discontented about it from what you have just
d said.

Dr Carr: Not at all. If we look at the Commission’s
objectives we could see them as extremely radical.
They bring about changes for the whole of the
industry. The principles that sit behind them we fully
support but there are some specific issues within
that, hopefully that we can expose during discussion
today, that we think need to be addressed in the final
outcomes of the proposals. However, we do agree
that speedy conclusion of these proposals must
remain a key objective for the Commission.

Q215 Chairman: You said in your remarks a second
time that it is going to have a radical effect on your
business and I have searched through your
voluminous submission to us to find some kind of
statement of financial impact on British Sugar of
these proposals. You talk about what you have
invested and you talk about the reductions in plants
that you have achieved but I am not seeing much in
the way of a forward look. Perhaps you could fill in
the missing bit.

Dr Carr: I think the evidence we provide in relation
to the efficiency improvements in the industry is
important in the context of the fact that we have not
been complacent in the environment that we have
operated in over many years. We have moved the
number of plants operating from 17 to six and we
have quadrupled our productivity through the last
20 year period and at the same time invested very
substantially, over one billion pounds. That is the
history. Clearly the proposals as laid down demand
further improvements in efficiency and that is
something we will need to address once we see the
final outcome of the proposals. In terms of the
financial impact on our business, we have made
public statements at an ABF level in the past in
relation to what that will do to us and I can only
reflect those to the Committee today, which is that
we will have a profit impact of in excess of £40
million in steady state by the assumptions that we
assumed when we made that calculation.

Q216 Chairman: £40 million less?

Dr Carr: That is correct.

Q217 Chairman: Notwithstanding the fact that you
have just said you think there is an opportunity for
more efficiencies to try to claw back some of that?

Dr Carr: I am not at liberty at this point, because we
are in a closed period for our annual results at an
ABF level, to divulge to you the precise details
behind that calculation. All I am at liberty to provide
at this stage is the bottom line number.

Q218 Chairman: Maybe you cannot do the numbers
but where is the potential for efficiency? How are you
going to be more efficient against a £40 million drop
in your profits?

Mr Carter: Let me have a try. The efficiency
improvements that we are going to have to put in
place are similar to the efficiency improvements we
have been driving in all parts of the industry and all
parts of the business for the last 10–15 years. The
reason, as the NFU confirmed, that we are one of the
lowest cost processors in the EU and we also have
one of the most efficient beet growing industries in
the EU as well is because of the efficiency
improvements we have driven over the last 10–15
years. That process cannot stop, that is what Mark
is trying to say. The reason it cannot stop is because
these proposals are very much at the most radical
der of the spectrum for any producers in the EU,
however efficient they are. It is radical even for the
most efficient in Europe. Therefore, we cannot stop
that process of efficiency improvement; on the
contrary, we have to accelerate it.

Chairman: Mr Vara would like to ask you some
questions that might reflect on part of that exercise
that deal with cane sugar.

Mr Vara: Thank you, Chairman. Can I just say that
the last time I saw Chris Carter and Clare Wenner
was over a cup of coffee in my constituency where,
of course, British Sugar is based with its
headquarters. I very much hope that after this
question and answer session that hospitality will be
extended to me again.

Chairman: All this for another cup of coffee.

Mr Vara: At least.

Mr Drew: I hope you had sugar in it!

Chairman: I suppose if you are facing a drop of
£40 million that is all you can afford, a cup of coffee.

Q219 Mr Vara: British Sugar has drawn attention to
the provision in the draft regulation which provides
that there should be a restriction on the ability
Guidance on full time users, particularly for
the first three years. When we had Tate & Lyle giving
us evidence last week they felt that it was essential for
them to have a guaranteed ‘base quantity’ of cane
to process and they thought it would be unfair if a
company such as British Sugar was able to use its
to process on its own and subsidise moves
into cane refining. I would like to know are you
sympathetic to Tate & Lyle’s argument that it should
be granted a guaranteed base quantity?
**Dr Carr:** Just to pick up in the broad first and then answer the specific question. If we look at the proposals as they are tabled today, the refineries get certain concessions within those proposals. Specifically, they relate to the fact that the complete magnitude of the quota, the reductions in European sugar production, are associated with the beet sector through the restructuring scheme. Today the proposals carry the exclusivity of supply for those cane raws through to the existing refiners for a period of three years and then preferential access to those cane raws for the subsequent years. We believe there are already fairly clear upfront concessions associated with the provision of cane for the refineries. That is in contrast to the European beet sector which is essentially tasked with moving production from something like a four million tonne surplus at 20 million tonnes of total production to a four million tonne deficit at 12 million tonnes of production to allow for preferential imports associated particularly with the Least Developed Countries. The consequence of that 40% European production drop on the beet sector is something like 54 factories and 83,000 jobs by the Commission’s estimation. Not by our own but by the Commission’s estimation. I would say that this looks pretty well balanced already in favour of the refiners and, indeed, many Member States argue that it is too heavily balanced in favour of the refiners. I think that would be the perspective that I would put on your question.

**Q220 Chairman:** Can you explain a little bit to me because one thing I have been struggling to get to grips with is if you went into cane processing how would you acquire the raw material?

**Dr Carr:** The issue as drafted is that we are not able to do that for at least three years and then subsequent to that, if there were raw cane feedstock available, either after the traditional refiners’ needs are satisfied or, alternatively, as a consequence of a substantial increase in LDC sugars available, then we would have the facility to take raws on.

**Q221 Chairman:** Are you actively pursuing that as a route of procurement?

**Dr Carr:** I do not think it is any secret that any European beet processor with the capacity and capability to incorporate raws to improve the overall efficiency of their facility has been looking at it, indeed many have, but clearly that opportunity does not avail itself to us now in the first three years of this programme.

**Q222 Chairman:** Do we take it from that the answer is yes, you have been looking?

**Dr Carr:** We have been looking.

**Q223 Mr Williams:** You describe the Commission’s proposed reductions as being “unnecessarily severe”. How much do you think the EU price of sugar needs to fall in order to bring supply and demand back into balance?

**Dr Carr:** I think we would all accept that the price proposals are extremely radical losing 39% on the institutional prices for white sugar in Europe. I guess what I would say is that the key to success of the reform is getting the balance right between setting a price which drives as much of the inefficient production out, and remember that we are talking about six million tonnes gross quota reduction, five million after the quota buyback, and then, secondly, having a price high enough to provide the minimum beet price at a sufficiently high level to source all the beet. Indeed, as Mike Blacker said earlier on today, at €25 a tonne we know from independent studies that the provision of beet in the UK is extremely challenged. It is about getting that ideal balance. I think what we have got to understand is when it comes to the restructuring and getting the price right for restructuring it is quite a complex area because it is not just going to be about basic economics, which I can forecast, it is going to be much more about national, cultural issues, political issues, et cetera, and for that reason I am not able to give a view on what I think that price should be. Suffice it to say that 39% feels extremely radical and is extremely difficult for us.

**Q224 Mr Williams:** In the evidence given by the NFU I think the President said that they hoped, or expected, I am not sure which, that there would not be a reduction in the tonnage of beet produced but it might be from a smaller acreage, yet research by Defra showed that it might be necessary to pay a premium of 20% on top of the beet price in order to keep the reduction in beet produced to 20%. Do you recognise those figures? Will you be willing to engage in those figures?

**Dr Carr:** I think we recognise those figures from the reports that have been produced. I guess what we would say is that historically we have established very good working relationships with the NFU, and I think that has been evidenced to some extent today, and we would like to see that continue to make sure that the provision of beet as part of the total supply chain allows us to be, and continues to be, the most efficient producer of sugar in Western Europe. That challenge is to all parts of the supply chain, quite frankly.

**Q225 Mr Williams:** Will you be willing to pay a premium in order to maintain security of supply? **Dr Carr:** I think what we have got to understand is that any premium that is paid over and above the minimum beet price is potentially a distortion of competitiveness of the UK industry as a whole and, therefore, we would have to do that very clearly understanding the implications on that perspective.

**Q226 Chairman:** Dr Carr, you made a comment a second ago in reply to Mr Williams’ question which indicated that you could not help us to know whether €385 per tonne, which is the price reduction, is the right number or not. Did I understand that correctly?
Dr Carr: I think what you have to bear in mind is what is the Commission seeking to achieve by setting the price as low as that and what can you achieve as an outcome in terms of volume reduction procurement.

Q227 Chairman: The reason I ask that question is because you say very definitely in your evidence that price reductions to €385 a tonne for sugar and €25 a tonne for beet are unnecessarily severe. You must have a figure in your mind as to where it starts to go down to severe, not so severe to acceptable. Can you not give us a bit of a clue as to where on the spectrum we ought to be if it is going to have the right effect of taking out the inefficient and restructure the industry which you support and removing the sentiment in paragraph 4.2 of your evidence?

Dr Carr: The context specifically in which we made that statement relates to the fact that we view it as being an extremely challenging price for beet which is directly driven off the reference price. In terms of the price level required to drive the appropriate level of restructuring, frankly I think we have to look to the Commission for guidance on that. I am not prepared or in a position to give an indication of what I think that is.

Q228 Chairman: So you are going to leave it to the Commission to work it out. You had the intellectual observation, if you like, to tell us that 385 was unnecessarily severe, so you knew that to be true otherwise you would not have written it down.

Dr Carr: From the perspective of beet suppliers, Chairman, that is a fact. In terms of how the six million tonnes gross of quota reduction is going to take place or, indeed, from which Member States, I would not wish to second guess the Commission’s thinking there. Clearly their perspective is to see that volume balance achieved at the end of regime reform through pricing in that manner.

Q229 Chairman: The Commission must have some idea of the relationship between production and price otherwise they would not have dreamed up this number, or are you suggesting the number was plucked off the wall?

Dr Carr: No, not at all. I think we would all recognise that the Commission has done their own impact assessment of what price will do for the industry across Europe and the extent to which volume will voluntarily leave the beet producing sectors across Europe.

Q230 Chairman: You have an involvement in Poland, have you not? You have got another perspective to work out whether these numbers are right.

Dr Carr: We have an operation in Poland. We run the same objectives in Poland as we run in the UK, which is to try to establish a leadership position in terms of our cost-efficiency. The price setting is all about getting the minimum beet price at a high enough level to attract beet into our industry and at the same time provide sufficient incentive for elements of the industry to leave and relinquish their quota. We at no stage are planning to do that unless the competitive position is distorted through compromise. I can only take my perspective and say at these prices we will operate, we are planning to operate, but I cannot second guess what others will wish to do and, therefore, I cannot say that.

Q231 Chairman: Are you sure in the UK at these prices you are going to get the quantity of beet you need to keep whatever number of plants you end up having?

Dr Carr: We have a very clear recognition that the procurement of beet supplies is a key critical issue for us. We have been in dialogue with the NFU and all of our growers to make sure that we are able to make an assessment of that and an assessment as to what that will mean for us.

Q232 Chairman: Sorry, that is doublespeak. I did not understand that. I want to know straight forwardly, do you think at the price of €385 a tonne you will get the sugar beet you need to keep your plants going?

Dr Carr: Within our grower base I think there are growers who would find it very difficult to grow at that level, I think there are a number who would be quite satisfied to grow at that level and, therefore, in the same way as we would look at our own operations we will need to look at the total supply chain to make sure we get sufficient beet.

Q233 Lynne Jones: You are saying that the price cuts are unnecessarily severe. Are you implying that the Commission’s opener is severe and then it is expecting to modify those out of negotiations and make them less severe? If so, will you be providing ammunition for our negotiators?

Mr Carter: In terms of the reform process and negotiations, the state that we are in at the moment is that the negotiations in earnest began at the beginning of last month—September—and they are due to be concluded, if the timetable is met, by the end of next month—November. With everybody else who has an interest, as you would expect, we are making our views known to everybody who has an influence, which includes our own Government, both as the Government and as the UK Presidency holder. If I can come back to the question you were asking, Chairman. I know it is a difficult point to grasp but the difficulty that the Commission has in this crucial area of pitching the support price is that it must pitch it sufficiently low to drive an efficient reform process. If it does not do that then not enough tonnage will be encouraged out in the restructuring scheme. That means, inevitably, across the board there will be mandatory quota cuts. For those of us who are seeking to stay in as efficient producers, that would be disastrous. As the NFU said before us, we do not support that. We recognise, although it hurts us, that a degree of price reduction is crucial and it needs to be a fairly severe one. Against that, the opposite pole of the argument, if you like, is that if it is driven down too low then even...
the most efficient countries, of which we are probably one, will struggle to get adequate beet supplies. The trick is to get the balance just right. You were asking us exactly what our view is on what that number should be but we cannot put a figure on it, it depends on a variety of other considerations. We are saying that in our view it should be a little bit higher than £25 per tonne of beet as proposed but at this point we are not able to put a number on it.

Chairman: So what are you going to tell Defra? You have just told us you are letting all these influential people know what should be happening, so what are you going to whisper in the ear of the minister? Are you going to wander up to Mrs Beckett and say, “Excuse me, this 385 is just a bit tight, could you do a bit better?” If Defra turn round and say, “How much better do you think we ought to do”, what are you going to say to them, “We don’t know”?

Q234 Lynne Jones: It is the beet price that is perhaps more concern than the tonnage because you make quite high profits out of your sugar, do you not? It is the beet price that should be of concern to you.  
Mr Carter: To answer the Chairman’s question, the answer we give them is very similar to the answer we have just given you. The price reduction has got to be severe, we accept that although it hurts our industry and it hurts our profitability, but we feel that the price reduction as proposed is just a touch too severe.

Q235 Chairman: What does that mean, “a touch too severe”?
Mr Carter: We do not put a figure on it, just as the NFU declined to before us. I am sorry we cannot be more specific but it depends on a whole variety of other things which are yet to be agreed.

Q236 Daniel Kawczynski: Our Chairman stated that you have a factory in Poland and I know that in the European Union they are trying to make sure that everything is equal and balanced country by country. Can I ask you, what is going on in Poland which is different from the United Kingdom in terms of these reforms? Is the attitude of the Polish Government different from that of the UK Government? How are you finding that difference when you are one company straddling both countries?

Dr Carr: Just for the record, we have four factories in Poland as we sit here today and six factories in the UK as you will know. In terms of receiving the Commission’s proposals there is no difference, the proposals are tabled in exactly the same manner across the whole of Europe, as I think you would expect. I think the Polish industry is rather different from here in the UK. There is one very big nationalised Polish sugar producer with many, many sites and then there are two other German producers in Poland. Clearly the Polish view is that these current proposals are extremely radical, principally because the efficiency of many of the factories in Poland is very, very low indeed. Just to give you an indicative number, and Chris will have more details, the average daily slice, which is the tonnes of beet processed in a day, to keep it very simple, is something like half the rest of the European average in Poland and that immediately means that your efficiency is substantially lower. Our focus in Poland is to improve the efficiency so that we take the same sort of leadership position there that we have here. That is what we are working on with a significant amount of investment going in as we speak.

Q237 Daniel Kawczynski: You see Poland as a major area of investment for you?

Dr Carr: Our plan is to make sure that wherever we operate, we operate as efficiently as we can as a total supply chain incorporating clearly the provision of beet. If we can do that then we think that it is logical for us to remain in this industry post-reform, and that is what we are seeking to do across the board.

Q238 Chairman: Mr Kawczynski asked you a very straight question, are you going to make investments in Poland, and you said if all the things are right you will stay in there. Is the answer to his question yes or no?

Dr Carr: I think I stated before his follow-up question that we are currently investing very heavily in Poland as, indeed, we are in the UK.

Q239 Chairman: Are you going to carry on doing that?

Dr Carr: Indeed we will.

Chairman: Good. That is all we need to know.

Q240 Lynne Jones: The Polish farmers are less efficient than the UK farmers. Presumably because the processors in Poland are less efficient then you have some competitive advantage over them but you might still have difficulties getting supplies. Why are you not concentrating on the UK where our farmers are more efficient? What do you think about what the NFU are saying about the relationship between the processors and farmers as being skewed in your favour notwithstanding there is some element of good relations between the two of you? What should be done? Should Defra be involved in the negotiations on a new Inter-Professional Agreement?

Dr Carr: There are a number of questions in that. Firstly, on Poland we have worked at the efficiency of that operation for a number of years and we continue to do so. The premise there is that we can be a highly efficient operator in processing terms able to supply the domestic Polish market, which is largely what we are focused on. There are specific challenges to the grower base in Poland in exactly the same way as there are in the UK and, you are right, their efficiency is lower so they come from a lower base and we will have to work with them on that. In terms of the UK, as I have stated previously, we have had a very good working relationship with the NFU, we have successive Inter-Professional Agreements which we have steadfastly stood by and I think
jointly seen the opportunities arising from that and we hope that can continue. We would like to do that clearly directly with the NFU as we have in the past.

Q241 Lynne Jones: Do you accept that there is an imbalance? The NFU say that your profit per tonne is more than the minimum price proposed by the Commission. I know your prices are going to come down but you are making huge profits. Does the Department have any role in trying to redress that balance or do you not accept that it exists?

Mr Carter: The Government already has a role in the contract. It is the custodian of the contract between the UK growers and the processor and there is a defined arbitration clause in that where if either party has a grievance it can place that grievance before Defra on behalf of the Government and Defra has to resolve the grievance.

Q242 Sir Peter Soulsby: You have told us about your operations in Poland and you have told us about the reductions that you have already made in the number of UK factories you have got, and I think a little earlier you told us that you would not be entering into the restructuring scheme which means that subsequent factory closures will not attract the EU restructuring payment. Can we return to the question that the Chairman asked you earlier on: Is it likely that you will close one or more of your existing UK factories?

Dr Carr: What you have to understand is that the challenges laid down in this proposal drive us to be even more efficient than we have been in the past and that efficiency can be achieved through agricultural improvements, through processing efficiencies, through energy reduction schemes and through your operating configuration. On that basis we would not rule out in the future reducing the number of factories that operate in any region that we operate in.

Q243 Sir Peter Soulsby: That did not quite answer the question but I think we are getting nearer to it. It does sound to me as if you are saying that it is quite likely that you will have to reduce the number of factories in the UK.

Dr Carr: I think it still depends on the final outcome of reform but we do not rule it out. By that I mean that the competitive challenge is there for us and we have got to do things better in the future, as we have done in the past. There is still the option of purchasing quota if we so wish, a point that was raised earlier. When we have put all that together we will make some decisions, but no decisions have been made at this time.

Q244 Sir Peter Soulsby: I understand that no decisions have been taken, I understand what you are saying, but it does sound to me as if there is a strong possibility that you will have to reduce the number of factories in the UK. Is that right?

Dr Carr: We will have to look at the configuration we choose to operate as part of a total plan to continue to drive the efficiency forward.

Sir Peter Soulsby: I think that probably means yes.

Q245 Chairman: Just to be clear, if it comes out as currently proposed can you have the existing number of plants in operation? When you say you will have to look at it, presumably you have done some scenario work already on it.

Dr Carr: We have got many scenarios and many outcomes because you will appreciate that there are still many things up for grabs in terms of this final position. As I say, once we have seen the outcome of that we will make that decision. We have not made that decision yet.

Q246 Chairman: Heroically if there was an agreement by the end of this year, when do you show your hand? When do you think your calculations will be completed?

Dr Carr: We will need to move very quickly on the basis that these reforms are particularly radical and, therefore, particularly challenging for us.

Q247 Mr Vara: British Sugar has said: “an inevitable consequence of reform will be greater concentration in the EU sugar industry.”20 This Committee is mindful, as you are no doubt aware, that in 1988 British Sugar was fined a substantial amount of money by the European Commission for fixing prices and rigging the market for granulated white sugar in the latter part of the 1980s. Last week we had Tate & Lyle before us and they assured us that price fixing would not happen again. Can we have the same assurance from you bearing in mind that you are mindful that the number of producers will be concentrated. Can we have an assurance that you will do everything possible to ensure that there is no more price rigging?

Dr Carr: I think you have to think about what concentration means.

Q248 Mr Vara: A yes or no will do.

Dr Carr: If I may, for one moment, concentration essentially means that we will have many bigger producers encircling the UK. There will be huge surpluses in France—the French surplus will be as much as the UK’s domestic consumption alone—as there will be surpluses in the Netherlands, Belgium and Germany as well. On that basis we expect the level of competition in the UK market to increase because of those surpluses needing to be placed in Europe and, therefore, I think the competitive stakes are increased, not reduced in any way, shape or form. In terms of price setting arrangements of the past, I was not around at that time, which is nice to be able to say, but of course we would fully support any investigation that was deemed necessary.

Q249 Mr Vara: There would be an element of transparency to ensure that there would be no collusion with others on price rigging or whatever. Do you have any such procedures in place at the moment?

20 Ev 60
Dr Carr: Absolutely. We have a full compliance programme within the business, as you would expect, and that is routinely audited both by internal staff and external staff. We have a full compliance programme.

Q250 Chairman: Just help me to understand something. You just said a second ago that there are going to be surpluses in the new regime, and you quoted the French specifically, yet earlier you said that the price reduction was pretty well at the severe end of the scale. Help me to understand how, if we have got a severe price reduction, we are still going to end up with surpluses in certain producer countries when I thought the whole reform of the regime was to try to bring some kind of balance into the marketplace? Why would this rebalancing not occur?

Dr Carr: I think you have to understand that there is a structural surplus today in many of these states and the restructuring scheme, which is going to take all the quota volume out, will be based on those volunteering to exit and, given the efficiency of the agricultural base and to a lesser extent the efficiency of the processing base in France, really I would not expect any of their quotas to be volunteered for elimination.

Q251 Chairman: The message I am getting is you expect to see a European sugar market where the real market price of sugar in Europe could be below the proposed reference price levels.

Dr Carr: I am not sure what draws you to that conclusion.

Q252 Chairman: If you have got surpluses in markets, and you were talking about us being encircled by lots of efficient producers from elsewhere, the message I am getting from that is somehow it will drive down the market price for sugar in the United Kingdom. Last week we were told that the UK market price was 10% above the Continent simply because of the question of the shipping costs of sugar. The message I am getting is that maybe there will be so much sugar around that prices in total will be driven down to very low levels.

Dr Carr: No, you misunderstand my point. What I was saying was the restructuring scheme will take eight million tonnes of European beet sugar production out, six million tonnes gross of quota, but that will not be universally spread across every Member State, it will come from those Member States that are particularly inefficient and elect to leave. As there will be big surpluses, and it happens by virtue of efficiency those sit around the UK, certainly Western Europe in the future, there will be substantial deficits in some of the northern Mediterranean states. The overall position will be a net surplus in Europe of beet sugar production of some four million tonnes. 21

Q253 Lynne Jones: You said that there will not be any reduction in efficient countries like the UK and France, yet the NFU were telling us they cannot produce at the €25 price and you seem to be accepting that in terms of your concern about getting adequate supplies. How do you reconcile those? Can I also raise a point that Tate & Lyle raised last week about their margins being cut far lower than beet processing margins and whether you would care to comment on that. If what they are saying is correct, why are you interested in getting into cane which seems to contradict what they were saying?

Mr Carter: Taking the quota and European production cut question first: the point here is that it is the European Commission’s intention, as Mark has said, to reduce overall production by about eight million tonnes, quota production net by five million tonnes. That is their intention to bring the European market supply-demand into balance for the first time ever and to allow room for imports from developing countries. That is their aim. The whole thesis of the efficiency driving part of the argument is that would not be across the board in every single Member State because some Member States have very efficient industries and some have relatively high cost industries. The idea of the current set of proposals and the restructuring scheme is to target those reductions by voluntary mechanism to those countries which are highest cost and, therefore, will find it hardest.

Q254 Lynne Jones: I understand that.

Mr Carter: Therefore, some countries will rationalise heavily or disappear altogether. Those countries which are lowest cost will either reduce only a little bit or more or less stay. We are in that latter category, we believe. It just so happens for the same reason that the UK is geographically in one of the best areas of Europe to produce, most of our European competitor and neighbouring countries are in much the same position as we are, so it is very likely that the mid north-west of Europe, that aggregation of countries, will survive. That is the reason why the majority of the ones surrounding us—France, Belgium, Germany, Holland—will be surplus producers post-reform.

Q255 Lynne Jones: I understand all that. My question was you were doubting that the UK could supply you with the beet based on the prices that the EU is going to pay them and now you are saying they are efficient and, therefore, they will be able to cope.

Mr Carter: This goes back to the Chairman’s question right at the beginning. That is the Commission’s proposal of €25 a tonne of beet and €385 as the support price for a tonne of sugar. We have already said we think those are a little too low and they should be lifted slightly to achieve the Commission’s reform objectives and, secondly, to secure adequate beet supplies in the very same countries that you are referring to.

21 Note by witness: “net surplus” should read “net deficit”. (See Q257 for clarification on this, and see also British Sugar’s supplementary memorandum at Ev 73)
Chairman: If that four million tonnes of surplus by your calculation is going to come out of this reform programme within Europe we do not seem to be achieving the objectives.

Mr Carter: I am sorry, I do not understand why not.

Chairman: Dr Carr said there is going to be a surplus of four million tonnes of beet production—

Dr Carr: There is today. There is today a surplus in production over European consumption of four million tonnes. There will be a deficit of four million tonnes production to consumption in the future to allow for LDC access and continued ACP access. That will allow the market to come into balance with consumption at the end of this reform.

Mr Carter: Unless the price lifts somewhat above the €25 production in Europe will be cut so severely that it will be a massive deficit.

Chairman: I am going to draw our discussions to a conclusion.

Lynne Jones: Could we have that information?

Chairman: I am going to ask not only for that information, because I would hate our witnesses to go away saying “They do not really understand this business about the surplus, they have not got it”. If we have not got it we will put our hands up and apologise. I know Mr Harris has a very clear mind in understanding the way the sugar market operates because he has been involved in this for many years. I am sure between all of you, Mr Harris, you could write us a little clear explanation to make certain that we really understand whether or not there is a big pile of four million tonnes sitting there after the reforms or if we have missed some structural change you can shed a little light into what still is a complex regime as far as we are concerned. May I thank you for your contributions, both oral and written, and we look forward to your further evidence. Thank you very much for coming before us.

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Supplementary memorandum submitted by British Sugar PLC

Executive Summary

Beet/Cane Balance

I attach three short reports on the main issues raised:

(A) Summary of issues on beet/cane balance.

(B) Financial effects of sugar reform on European refiners and beet processors.

(C) Competing in a deregulated market.

As you can see, the headline conclusions from this work are:

- Refiners have repeatedly claimed that they could compete in a fully deregulated world market.
- In reality, to be able genuinely to compete in a fully deregulated world market, refiners would have to be operating with refining costs no higher than £50/tonne.
- If European refiners are sufficiently low cost to be able to do this, then they will get better financial returns from the reform proposals than even the lowest cost European beet processors.
- The financial effects of the reform proposals are broadly similar for European refiners and beet processors (in terms of per cent net margin reduction and return on assets) for a wide range of operating costs for each.
- Refiners have already been offered substantial concessions in the reform proposals, including:
  - Complete protection from permanent quota cuts.
  - Exclusive access to cane raws for the first three years of reform * against the interests of ACP and LDC developing countries.
  - Preferential access to cane raws for the whole of the reform period. In contrast, the beet sector is being forced to cut quotas by 5 million tonnes (−30%) and total production by 8 million tonnes (−40%) with the loss of over 80,000 jobs. There is no case for offering European refiners any further concessions in terms of financial subsidies or additional exclusivity for cane raws after 2008.
European supply/demand balance

(D) Changes in European supply/demand balance caused by the reform proposals are set out in the attached table.

As can be seen, the EU market moves from a 4 million tonne surplus now, to a 3.3 million tonne deficit by 2010. This 7.3 million tonne swing is caused by a combination of a 7.9 million tonne cut in European beet sugar production plus a projected 0.6 million tonne fall in EU consumption. The quota surplus in France post-reform will be greater than the UK’s entire consumption.

(A) Summary of Issues on Beet/Cane Balance

1. The Issue

Following announcement of the Commission’s proposals on 22 June, refiners have complained that they are being unfairly treated, despite being offered some large concessions in the proposals. Refiners are now claiming that they should be given additional special concessions in the form of either a refining subsidy, or exclusive access to cane raws for the whole duration of the reform period. The effects of these concessions would be to make their operations more profitable.

2. Concessions Already Offered to Refiners in the Proposals

The beet sector is being forced to reduce volume in the proposals: quota production is to be cut by 5 million tonnes (30%) and total volume (including non-quota) cut by 8 million tonnes (40%). Refiners are completely protected from these volume cuts.

The Commission has made it clear that ACP cane raws should be made available for everyone, including beet processors, in the best interests of ACP producers (because this would enable them to negotiate better terms and prices) and to increase efficiency. But refiners have been granted exclusive access to cane raws for the three years 2006, 2007 and 2008, against the interests of ACP and beet processors.

After 2008–09 LDC imports to the EU will be unrestricted, so anyone should be able to bid for them. But refiners have been given preferential access to raw sugar imports until 2015.

These concessions give extremely favourable treatment for refiners on volume protection, in contrast to the harsh treatment proposed for the beet sector.

3. Arguments Used by Refiners to Support Special Treatment

Refiners have argued a number of points to promote their case. However, on closer inspection these points do not stand up.

Their main claims have been:

**Claim 1:** Only stand-alone refiners can efficiently refine cane raws.

RESPONSE: Beet processors can easily “co-refine” cane raws as part of their beet processing operations: this is widespread practice outside the EU. Very few technical adjustments are needed to do this, and it is a highly efficient process.

**Claim 2:** Refiners are the main gateway to Europe for ACP and LDC developing countries.

RESPONSE: It is strongly in the interests of all developing countries to be able to sell their raw sugar to as many industries as possible, as this gives them the best terms and prices. Both ACP and LDC have repeatedly stated this.

**Claim 3:** Refiners are special because they can compete in a fully deregulated (ie world) market, whereas beet processors can’t.

RESPONSE: If any refiner has low enough costs to be able to compete in a fully deregulated market, then it will get better financial returns from the proposals than all European beet processors, including the most efficient ones. It would also be able to use any surplus refining capacity to toll refine world market sugar, and should therefore never have to operate under-capacity.

**Claim 4:** Refiners are hit harder financially by the reforms, so should be given a special refining subsidy.

RESPONSE: The reforms are radical and hard-hitting, and will have harsh consequences for everyone. A special refining subsidy is not justified because the financial “hit” on refiners from the proposals is broadly similar as for beet processors. If they are efficient they will still be competitive (albeit at a lower margin). If they are high cost, they will either have to restructure or close down. But this is no different from beet processors.

**Claim 5:** Beet processors have been guaranteed volume supplies by being allocated quotas, why shouldn’t refiners be guaranteed exclusivity to cane raws supplies until the end of the reform period?
RESPONSE: Quotas allocated to beet processors are a ceiling, not a guarantee. On the contrary, many European beet processors will not be able to get adequate beet supplies at the proposed prices and will have to close down. From 2009 onwards LDC imports will be unrestricted, and the Commission consequently expects EU imports to double from 2 to 4 million tonnes. There is no reason why processors should not be able to bid for these cane raws imports, which would also be in the interests of ACP and LDC developing countries.

4. Summary

Refiners have already been offered large concessions in the reform proposals, which place them at a competitive advantage over the beet sector.

Any refiner which can genuinely compete in a fully deregulated market will get better financial returns from the reform proposals than even the most efficient European beet processors.

There is NO justification for refiners to receive a financial subsidy. The financial effects on them of the reform proposals are broadly the same as for beet processors for a wide range of operating efficiencies. No such subsidies are being offered for high cost beet processors.

Restricting cane raws access only to refiners is against the interests of ACP and LDC developing countries.

There is NO case for refiners being granted exclusive access to cane raws after 2008–09: they have already been offered guaranteed access for the first three years and preferential access from 2008–09 to 2014–15. In addition, LDC imports become completely unrestricted after 2008–09.

Any further special concessions for the refiners would tilt the “beet/cane balance” even more in the refiners’ favour, and would therefore be inequitable.

Granting them any more special concessions would put at risk even more jobs in the European beet sector.

(B) Financial Effects of Sugar Reform on European Refiners and Beet Processors

1. Introduction and Methodology

The effects of the sugar reform proposals on European refiners and beet processors have been compared in the following two annexes.

To do this, financial calculations have been done for a selection of refining and beet processing costs, ranging from “low cost” to “high cost”. In each case, the effects of the proposals on net margin, net margin% reduction (compared to today) and return on fixed assets, have been calculated.

It is important to do the comparison on a net margin (or full costed) basis, as the fixed assets used in the beet sector are 2–3 times those in refining. The reason for this is that all the primary cane processing is carried out at the country of origin: the refinery merely “cleans up” the raw sugar already produced, whereas beet processors have to carry out the entire operation from crop processing to white sugar refining and storage in a single continuous process. Doing the comparison on a gross margin basis (which excludes fixed costs) is therefore misleading.

2. Results of the Comparison

The results of the comparison are summarised in Annex 1, with detailed supporting calculations shown in Annex 222.

For refiners to be able to compete in a fully deregulated world market, their refining costs must be no higher than is €40–€50/tonne (see report: “Competing in a Deregulated Market”). Any refiner able to achieve this level of efficiency will have more favourable financial returns from the reform proposals than any European beet processor.

For European refiners, the effect of the reform proposal is to reduce their net margins in a range from −43% (low cost refiners) to −83% (high cost refiners), with equivalent returns on assets ranging from 28% to 5%.

For European beet processors, the effect of the reform proposal is to reduce their net margins in a range from −41% (low cost processors) to −192% (high cost processors), with equivalent returns on assets ranging from 18% to −6%.

22 Not printed.
3. **Conclusion**

This comparison demonstrates that, providing they are reasonably efficient, then European refiners will have returns at least as good as those for low cost processors.

It also demonstrates that high cost processors are hit even harder by the reforms than high cost refiners.

Overall, the financial effects of the reform proposals on European refiners and beet processors are broadly similar.

**Annex 1**

**FINANCIAL EFFECTS OF REFORM ON EUROPEAN REFINERS AND PROCESSORS**

**EUROPEAN CANE REFINERS**

<table>
<thead>
<tr>
<th>Refining Cost (€/T)</th>
<th>Low Cost</th>
<th>High Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>91</td>
<td>81</td>
<td>71</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% Cut</th>
<th>Return on Assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-37%</td>
<td>36%</td>
</tr>
<tr>
<td>-40%</td>
<td>32%</td>
</tr>
</tbody>
</table>

**EUROPEAN BEET PROCESSORS**

<table>
<thead>
<tr>
<th>Processing Cost (€/T)</th>
<th>Low Cost</th>
<th>High Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>160</td>
<td>180</td>
<td>200</td>
</tr>
<tr>
<td>104</td>
<td>84</td>
<td>64</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% Cut</th>
<th>Return on Assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-41%</td>
<td>18%</td>
</tr>
<tr>
<td>-46%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Notes
1. Support prices as per Commission’s proposals, ie sugar €385/t, beet €25/t, cane raws €319/t.
2. Refining allowance and processor gross margin calculated as per worksheet in Annex 2.
3. Average EU market price of €725/t used, taken from Commission’s Background Note No 2, September 2004.
4. Range of refining and processing costs taken from LMC studies.
5. Fixed assets per tonne of sugar taken from UK refiner and processor Annual Reports.

(C) **Competing in a Fully Deregulated World Market**

1. **What Determines Whether a Refiner can Compete in a Deregulated Market?**

A refiner can only compete in a fully deregulated market if its refining costs are low enough to make an adequate return from the differences (“differentials”) between the cost of buying raw sugar on the world market, compared to the cost of world market white sugar delivered to the EU in merchantable quality.

The relevant differentials for this assessment are the raw/white world sugar prices and the differences in cost of shipping and unloading white sugar compared to raw sugar.

2. **Raw/White Sugar World Price Differential**

The historic price differential on the world market between raw and white sugar is set out in Annex 1. This data has been taken from fob quotations on the New York Board of Trade (NYBOT) raw sugar market, and the London International Financial Futures Exchange (LIFFE) white sugar market. This trend shows that the difference in price between raw and white sugar on the world market (the “whites premium”) has averaged just under $65/tonne for the last 10 years.

As these prices are quoted at the originating port (“fob”), the additional transportation and unloading costs of white sugar over raw sugar must also be taken into account to arrive at the total “refining margin” available to compete in a fully deregulated market. In addition, the prevailing market discount must also be included, to allow for the difference in originating port between the white and raw sugar markets.
3. Shipping Costs Differential

In a fully deregulated market the most likely source of both raw and white sugar is Brazil. No significant volumes of raw or white sugar come from Brazil to the EU at the moment, so the best comparative shipping rates are actual movements of raw sugar into Black Sea ports and white sugar cargoes into the East Mediterranean.

The normal, and cheapest, way of shipping white sugar is to use 50kg bags transported in 14,000 tonne cargo vessels (using containers is considerably more expensive). Raw sugar is usually shipped in bulk, with a typical cargo size being 25,000 tonnes.

Under these market assumptions, How Robinson Shipping has calculated that the differential between the transportation costs of white sugar compared to raw sugar have averaged $20/tonne over the last five years (Annex 2).

4. Freight Discount

Shipping movements of white sugar from Brazil attract a freight differential (normally a discount). This is because the origination point for the world white sugar market is North Europe, not Brazil. For the purpose of this analysis, Santos has been taken as the Brazilian source port.

For the last six years, freight from Santos has attracted a discount which has averaged $13/tonne (Annex 3).

5. Unloading Costs Differential

Raw and white sugar prices quoted on the world market are fob, which includes handling and loading costs onto the vessel at the originating port.

However, the unloading costs are excluded. Typical quotations for these are as follows:

<table>
<thead>
<tr>
<th></th>
<th>$/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Sugar, Immingham (GP Shipping, Port Agency Services)</td>
<td>7</td>
</tr>
<tr>
<td>White Sugar, Immingham (JPL Stevedoring Contractors)</td>
<td>17</td>
</tr>
</tbody>
</table>

This indicates that the raw/white differential for unloading 50kg bags is about $10/tonne (although highly automated unloading facilities would reduce this figure).

6. Merchantable Quality for Customers

Sugar supplies to UK industrial customers are normally transported by road, either in bulk or as 50kg bags. For those preferring 50kg bags (small and medium sized customers) there would be no additional cost.

However for those preferring bulk supplies (typically larger customers) a small additional cost should be allowed for the cost of converting bags into bulk. A maximum figure for this additional cost would be $10/tonne.

7. Total Refining Margin Available in a Deregulated Market

The total margin available for a refiner to be able to compete in a fully deregulated market is therefore represented by the addition of each of the above raw/white differential costs:

<table>
<thead>
<tr>
<th></th>
<th>$/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw/White Sugar World Price Differential</td>
<td>65</td>
</tr>
<tr>
<td>Less Freight Discount (Santos Freight Differential)</td>
<td>(13)</td>
</tr>
<tr>
<td>Shipping Costs Differential</td>
<td>20</td>
</tr>
<tr>
<td>Unloading Costs Differential</td>
<td>10</td>
</tr>
<tr>
<td>[Option to Convert from 50kg to Bulk Deliveries]</td>
<td>10</td>
</tr>
<tr>
<td>Total Available Refining Margin</td>
<td>82–92</td>
</tr>
</tbody>
</table>

8. Refining Efficiency Necessary to be Able to Compete in a Deregulated Market

This total available refining margin must cover both the refiner’s costs and a reasonable return for the business.
The lowest acceptable level of return on total net assets to enable a business to cover its cost of capital, is likely to be 10% (this is half that suggested by Tate & Lyle in the Select Committee hearings). For European refiners, this would be equivalent to about $35/tonne of sugar.\textsuperscript{23, 24}

This would imply, by subtraction, that refining costs must be no higher than $47–$57/tonne (€40–€50/tonne) for a refiner to be able to compete in a fully deregulated market. If a higher return on capital than 10% is used (in their evidence Tate & Lyle said they expected 20%), then the maximum refining cost able to compete in a deregulated market becomes even smaller than this.

Any refiner this efficient would be expected to get net margins of at least €80/tonne post-reform (see accompanying report). This would provide returns post reform much higher than any European beet processors would expect to get.

Annex 1

WORLD MARKET RAW/WHITE SUGAR PRICE DIFFERENTIALS 1995–2005

![Graph](source: LIFFE and NYBOT international exchanges for world market white and raw sugar prices)

Annex 2

White Sugar Shipping

<table>
<thead>
<tr>
<th>(premium above raw shipping)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/t</td>
</tr>
<tr>
<td>Aug-00</td>
</tr>
<tr>
<td>Sep-00</td>
</tr>
<tr>
<td>Oct-00</td>
</tr>
<tr>
<td>Nov-00</td>
</tr>
<tr>
<td>Dec-00</td>
</tr>
</tbody>
</table>

Source: How Robinson Shipping

Raw Shipping in bulk. 25,000 t Cargo ($/tonne Brazil to Black Sea)
White Shipping in 50kg bags. 14,000 t Cargo ($/tonne Brazil to Eastern Mediterranean)

\textsuperscript{23} Tate & Lyle total net assets taken as £250 million for their UK refining operation, from their 2004 Annual Report (£190 million fixed costs plus £60 million net operating assets).

\textsuperscript{24} Tate & Lyle Thames refinery capacity assumed to be 1.2 million tonnes per year.
<table>
<thead>
<tr>
<th>Date</th>
<th>Raw</th>
<th>White</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-01</td>
<td>24.3</td>
<td>37.0</td>
<td>12.8</td>
</tr>
<tr>
<td>Feb-01</td>
<td>23.0</td>
<td>37.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Mar-01</td>
<td>22.3</td>
<td>37.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Apr-01</td>
<td>25.0</td>
<td>37.0</td>
<td>12.0</td>
</tr>
<tr>
<td>May-01</td>
<td>28.0</td>
<td>36.0</td>
<td>8.0</td>
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<td>Jun-01</td>
<td>25.8</td>
<td>37.0</td>
<td>11.3</td>
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<td>23.5</td>
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<tr>
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<td>23.0</td>
<td>38.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Sep-01</td>
<td>22.0</td>
<td>38.0</td>
<td>16.0</td>
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<td>Oct-01</td>
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<td>Nov-01</td>
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<td>16.3</td>
</tr>
<tr>
<td>Dec-01</td>
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<td>36.0</td>
<td>17.0</td>
</tr>
<tr>
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<tr>
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<td>15.0</td>
</tr>
<tr>
<td>Mar-02</td>
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<td>13.0</td>
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<tr>
<td>Apr-02</td>
<td>22.0</td>
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<tr>
<td>May-02</td>
<td>23.0</td>
<td>35.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Jun-02</td>
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<tr>
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<td>16.0</td>
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<td>Jan-03</td>
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<tr>
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<td>12.5</td>
</tr>
<tr>
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<td>26.3</td>
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</tr>
<tr>
<td>May-03</td>
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</tr>
<tr>
<td>Jun-03</td>
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<tr>
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<tr>
<td>Sep-03</td>
<td>29.8</td>
<td>48.0</td>
<td>18.3</td>
</tr>
<tr>
<td>Oct-03</td>
<td>33.0</td>
<td>52.0</td>
<td>19.0</td>
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<tr>
<td>Nov-03</td>
<td>36.0</td>
<td>54.0</td>
<td>18.0</td>
</tr>
<tr>
<td>Dec-03</td>
<td>40.5</td>
<td>61.0</td>
<td>20.5</td>
</tr>
<tr>
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<td>77.0</td>
<td>24.3</td>
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<td>Jun-04</td>
<td>37.0</td>
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<td>40.0</td>
</tr>
<tr>
<td>Jul-04</td>
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<td>76.0</td>
<td>38.3</td>
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<td>76.0</td>
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<tr>
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<td>Nov-04</td>
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<td>83.0</td>
<td>30.0</td>
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<tr>
<td>Dec-04</td>
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<tr>
<td>Jan-05</td>
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<td>Mar-05</td>
<td>50.5</td>
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<td>Apr-05</td>
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<td>20.5</td>
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<tr>
<td>May-05</td>
<td>47.8</td>
<td>74.0</td>
<td>26.3</td>
</tr>
<tr>
<td>Jul-05</td>
<td>36.0</td>
<td>70.0</td>
<td>24.0</td>
</tr>
<tr>
<td>5 Yr Avg</td>
<td>$32.7</td>
<td>$52.3</td>
<td>$19.6</td>
</tr>
</tbody>
</table>

Source: How Robinson Shipping

Raw Shipping in bulk. 25,000 t Cargo ($/tonne Brazil to Black Sea)

White Shipping in 50kg bags. 14,000 t Cargo ($/tonne Brazil to Eastern Mediterranean)
Annex 3

BRAZILIAN FREIGHT DISCOUNT TREND 1999–2005

$ per tonne

Santos Freight Differential

Source: LIFFE international exchange Santos freight differentials.

(D) EUROPEAN SUPPLY/Demand Balance

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>2012–13</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quota</td>
<td>17.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Non-quota</td>
<td>2.9</td>
<td>Nil</td>
</tr>
<tr>
<td>Imports</td>
<td>1.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Exports</td>
<td>(5.9)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Total Supplies</td>
<td>16.3</td>
<td>15.7</td>
</tr>
<tr>
<td>EU Consumption</td>
<td>(16.3)</td>
<td>(15.7)</td>
</tr>
<tr>
<td>EU Surplus/(Deficit)</td>
<td>4.0</td>
<td>(3.3)</td>
</tr>
</tbody>
</table>

Note: French surplus = 2.3 million tonnes
UK consumption = 2.0 million tonnes
Source: European Commission 2005
British Sugar
November 2005
Wednesday 26 October 2005

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
Mr Dan Rogerson
James Duddridge
Sir Peter Soulsby
Patrick Hall
David Taylor
Lynne Jones
Mr Shailesh Vara
David Lepper
Mr Roger Williams
Mrs Madeleine Moon

Memorandum submitted by Department for Environment, Food and Rural Affairs

INTRODUCTION

1. On 22 June 2005 the European Commission published formal legislative proposals for reform of the EU sugar regime along with an updated impact assessment and a short guide to the sugar sector. These represent the culmination of the preparatory process begun by the European Commission in September 2003 with the publication of an Options Paper and accompanying Extended Impact Assessment, followed by a further Communication in July 2004 setting out the Commission’s preferred approach. Prior to the publication of these proposals there had already been an extensive period of political and wider public debate of the issues, in the Agriculture and Fisheries Council, in national and European Parliaments, with Member States and with a wide range of stakeholder interests.

2. The Commission’s proposals are designed to take account of views expressed and to reflect the need for the EU to comply with the findings of the World Trade Organisation (WTO) Appellate Body following the earlier Panel case brought against aspects of the current regime by Brazil, Australia and Thailand. A full analysis of the proposals and other options for reform is set out in detail in the Regulatory Impact Assessment (RIA) submitted to Parliament by Defra on 7 July 2005.

DISCUSSION TO DATE AND FUTURE TIMING

3. The Commission’s proposals were presented to the European Parliament on 22 June 2005 and to the Agriculture Council on 18 July 2005.

4. The Commission has said that it would like the Council to reach agreement by November in order to provide a sustainable framework for the industry itself (particularly in anticipation of the expiry of the present regime in June 2006), to help the EU comply with the WTO Appellate Body ruling and to send a strong positive signal ahead of the Doha Round Ministerial meeting in Hong Kong in December. As Presidency, the United Kingdom is organising a programme of work to meet this aim. A series of technical discussions have already taken place at Council Working Group level and further examination at the Special Committee for Agriculture will prepare for continued Ministerial discussion at succeeding Council meetings in September, October and November.

5. At the July Council there was broad support for the concept of a voluntary restructuring scheme instead of compulsory production quota cuts, and for a 10-year time horizon, but some Member States argued that the proposed price cuts went too far and too fast, that compensation should be higher, and that the Everything But Arms import arrangements should be reviewed. It is too early to say how these positions may evolve as negotiations continue or to speculate about the prospects for agreement within the present timetable.

GOVERNMENT APPROACH

6. The Government believes the proposals form a good basis for negotiation consistent with its support for a liberalising, market-based reform which would bring sugar into line with other already reformed CAP sectors. On 30 June Defra launched a full 12 week public consultation exercise (closing date 23 September) and published a comprehensive RIA which looks in detail at the effects of reform in the UK, taking account of a wide range of evidence and analysis. The Government will need to consider responses to this consultation and developments in the EU negotiating process before reaching conclusions on where the balance of the UK interest lies.
ISSUES RAISED BY THE COMMITTEE

7. The Committee has asked for evidence on a number of specific points relating to the likely impact of the Commission’s proposals on UK agriculture in general as well as on different parts of the sugar sector and on consumers. The Government’s assessment of these issues is set out in full in its RIA. The analysis in the RIA brings out some key conclusions which are repeated here:

Extent and timescale of the proposed price reductions

8. In brief, the Commission has proposed a 39% price cut over two years starting in 2006–07, with compensation paid to farmers at 60% of the price cut incorporated into the Single Farm Payment and linked to environmental and land management standards. A four-year voluntary restructuring scheme would be established for EU sugar, isoglucose and insulin producers to encourage factory closure and the renunciation of quota as well as to cope with the social and environmental impact of the restructuring process. This scheme will be financed by a regressive levy on holders of quota, lasting three years, which will have the effect of delaying the transmission of the proposed reduction in prices to the consumer.

9. In presenting its proposals to the Council the Commission said that an early and deep price cut was essential to restore the competitiveness and market-orientation of the European Union sugar sector, guaranteeing it a viable long-term future and strengthening the EU’s negotiating position in the current round of world trade talks. In the absence of such action the industry would face a “slow and painful death” without the prospect of public funding to help it adjust. Changes as proposed would also enable the EU to respond to the findings of the WTO Panel, as upheld by the WTO Appellate Body, and comply with its international commitments.

Extent of transmission of price cut to consumers

10. The Commission has said that the reform will result in lower prices at farm and processor level which would normally feed through to lower ex-factory prices. The impact on the prices of food and drinks containing sugar is more complex as sugar tends to be one of many ingredients, and not necessarily the major one, in many foods.

Implications for UK Agriculture and alternative land uses

11. Detailed information on the implications for UK agriculture following reform of the EU sugar sector can be found in paragraphs 5.2.5 and 5.2.13 of the RIA. UK beet sugar production is likely to fall, although it is unclear at this stage how far. The net impact on individual growers who cease beet production after reform will depend upon a range of factors, including costs of beet growing (which would be saved) and the additional cost and price of growing alternative crops (mainly winter cereals) and the detailed arrangements for compensation. The Commission’s impact assessment states: “In the UK the future of sugar beet growing will depend upon the capacity for gains in production efficiency by improving yields and reducing costs”.

Compensation for EU producers

12. The Commission has proposed decoupled compensation to be paid to farmers at 60% of the price cut incorporated in to the Single Farm Payment and linked to environmental and land management standards. The Commission has said that the average income loss will be fully compensated because, on top of compensatory payments at 60%, the current production levy will disappear. Our own analysis is that the inefficiency of price support and the strong possibility that beet prices may not fall all the way to the proposed €25/t suggests that the proposed direct payment to beet growers (based on 60% of the notional price fall) ought to fully compensate for the change in support price.

Changes to quota arrangements

13. In contrast to the approach in its July 2004 Communication the Commission’s legislative proposals would not necessarily involve mandatory quota cuts. The extent to which any such reductions may be required will depend on the industry’s response to the voluntary restructuring scheme, under which processors will receive an outgoers payment in return for the surrender of production rights. If this does not result in a satisfactory balance of supply and demand under the new price structure, the Commission would have the power to impose a linear cut to all remaining quota.

14. The existing quota system will, however, be modified by the elimination of the present “C” quota arrangements and the merger of “A” and “B” quotas in a single national supply entitlement for each sugar producing Member State. This reflects the WTO Appellate Body ruling which confirmed the earlier Panel finding that the present arrangements effectively cross-subsidise sugar for export. In future sugar for domestic EU consumption would qualify for in quota price support, with any excess either having to be processed for non-food purposes (eg in the chemical, pharmaceutical or bio-fuel sectors) or subject to a
supplementary levy to avoid market distortion. The future market balance will also be regulated by a range of complementary measures such as carry-over and private storage in order to prevent the build up of any surpluses in the absence of intervention purchasing, which will be abolished.

15. The Member States currently producing “C” Sugar will be able to purchase a limited amount of additional quota to add to their merged “A” and “B” totals on the basis that they were able to produce efficiently at lower levels of support in the existing system and should be given the opportunity to reflect this in their continuing supply entitlement.

16. The proposed reductions in the price of sugar will also impact on the EU isoglucose sector. Therefore in order to allow the isoglucose sector to benefit from economies of scale and to be economically viable in the long term, the Commission has proposed that the isoglucose quota be increased by 300,000 tonnes for the existing producer companies, phased-in over three years with an increase of 100,000 tonnes each year.

Impact and long-term consequences of proposed reform on UK beet processor and cane refiner

17. Paragraphs 5.2.14 and 5.2.15 of the RIA set out in detail the Government’s analysis of the potential impact of the Commission’s proposals on the UK beet processor and cane refiner. With lower beet supplies, smaller margins and restructuring funds available, beet processors across the EU will have an incentive to close more factories and rationalise production with a view to increasing productivity on their remaining business. The UK has Europe’s most efficient beet processor (as shown by independent studies for the Commission and Defra) but whatever the outcome of reform, it is clear that decisions on sugar production levels in the UK will be very much a commercial matter for both growers and processors. EU cane refiners, including in the UK, are likely to be adversely impacted by this reform with lower white sugar prices.

Department for Environment, Food and Rural Affairs

October 2005

Witnesses: Lord Bach of Lutterworth, a Member of the House of Lords, Parliamentary Under-Secretary (Sustainable Farming and Food), Mr Andrew Kuyk, Head of Arable Crops Division, and Dr Colin Smith, Economic Adviser, Department for Environment, Food and Rural Affairs, examined.

Q260 Chairman: Good afternoon, ladies and gentlemen. Welcome to the third of the public evidence sessions of the Committee for the Environment, Food and Rural Affairs’ inquiry into the reform of the EU sugar regime. I apologise to any members of the public who are wondering why on earth we are starting early. It is because Lord Bach, who is our principal witness, has to get to the House of Lords just before four o’clock to do a parallel statement to that which Mrs Beckett delivered in the Commons today on the subject of avian flu. Minister, we are grateful to you for swiftly adjusting your timescale so that you could come and start with us a little earlier to discuss this very important subject. May I welcome you officially to the committee. I am personally delighted that our paths are crossing again because in your previous incarnation we talked about the statement. The answer to your question is that it is good news, Mr Chairman.

Lord Bach of Lutterworth: All right, I will do my best. Could I first of all thank the members of the committee today who have changed their timescales rather than I. I wanted to bring the committee up to date as best I could on developments at this week’s Agriculture Council meeting in Luxembourg. Before I continue with what I was going to say by way of an introductory statement, the answer to your question is that it is just sensible to do it this way. I am the only Defra Minister in the House of Lords and Defra is a department that has a lot of work in the House of Lords. For example, yesterday there was the
committee stage of the Commons Bill which will in
due course reach your House. There was no-one to
do it but I. If I were to go to Brussels on a regular
basis to sit on the Agriculture Council there would
be no-one in the House of Lords to do the work.
Of course, Mr Bradshaw is the Fisheries Minister
and chairs the Fisheries Council, and indeed
presides over it while we have the Presidency and
I think it is a matter of good housekeeping that
Commons Ministers, of whom as you know there
are a number, make up those who go to Brussels
(or Luxembourg on this occasion) on the usual
basis. Of course, I go over to Brussels and
Luxembourg myself.

Q263 Chairman: If I may interrupt, one of the
things that is apparent from the Council is that
there are still dissenters and there are still deals to
be done. According to the Presidency priorities,
which Mrs Beckett said we had, getting political
agreement by November on the sugar regime was
a UK priority, so who is the person walking the
corridors in the Council, delegation by delegation,
trying to broker a deal?

Lord Bach of Lutterworth: The person doing that
is Mrs Beckett.

Q264 Chairman: And she is the President of the
Council?

Lord Bach of Lutterworth: She is the President of
the Council.

Q265 Chairman: I was meaning specifically for the
UK, because we are going to come onto some of
the issues that concern us.

Lord Bach of Lutterworth: If I could just say, as I
was going to in my interrupted statement, it may
help to answer that to some extent. First of all, I
should thank you and the committee for giving me
the opportunity to come before you today and to
praise, if I may, your committee's report last year,
which was clear and an excellent summary of the
background, the many interests at stake and the
possible way forward. Indeed, you will have
noticed the parallel, the closeness, between the
legislative proposals tabled by the Commission in
June, which are very much in line with your
committee's findings, and the Government's
approach to the need for a market-based
liberalising reform to bring sugar into line with our
already other reformed CAP sectors, and to comply
with the EU's international obligations, particularly in respect of the WTO. These proposals are the subject of very active negotiation in the Council of Ministers under the UK Presidency. The Commission has said clearly that it believes decisions on the proposals need to be reached at the next Council in November both to allow time for the necessary implementation measures to be put in place before the start of the new regime, which of course starts in July next year, and to put the EU in a stronger position at the Doha round negotiations in Hong Kong in December this year. As President we are doing all we can to meet the timetable for an intensive work

programme which we will accelerate further in the
next few weeks. There are comments by people who
obviously believe that holding the Presidency may
inhibit the extent to which we can argue a national
UK case. We believe this is based on some sort of
misunderstanding. We are perfectly entitled to put
our views from the UK seat, and that is what Mr
Bradshaw does with great distinction on these
occasions, in the same way that other Member
States do from theirs. The difference is that the
Chair of the Council has obligations as to the
council conduct of the debate and the need to seek
consensus round the table. In the latter stages of
negotiation that includes responsibility for seeking
compromise solutions in close co-operation with
the Commission in order that agreement can be
reached, and it is that role, if I may break off from
what I was about to say, that the Secretary of State
performs both in Europe and, of course, at home.
I would argue that that is absolutely consistent with
our position both as President and as an individual
Member State of the EU. It does mean that I
cannot go into too much detail today either on our
own negotiating position or on the areas where
compromise may need to be found in the weeks
ahead. That could prejudice the chances of a
successful outcome and risk undermining our own
interests. Chairman, can I just give you a brief
account of the discussions which took place in
Luxembourg this week, which my Rt Hon Friend
will be reporting to the House in the normal way?
There was a full table round giving all Member
States the opportunity to express their views and
set out their ideas for possible improvements in the
proposals for the Commission to consider ahead of
November. In that discussion there was a large
measure of recognition that early agreement is
needed and that a substantive reform is also
required. Some Member States voiced concerns
about the scale and pace of the price cuts proposed
and about the way the market would be managed
under the proposed arrangements. These have now
been summarised in a letter to the Commission and
Presidency and will obviously help inform the work
which lies ahead. The Commissioner herself also
reported on her latest contacts with the Chairman
of the European Parliament Agriculture Committee
in which he said that he understood the need for
decisions in the Council ahead of the formal
delivery of a European parliamentary opinion. I
believe that the negotiations are progressing
satisfactorily in a way that will enable the Council
to come to conclusions in November but I say
straightaway that a huge amount of hard work
remains to be done before a final package emerges.

Q266 Chairman: Thank you very much for that
helpful statement. I note that some 11 Member
States indicated dissent at the Council of Ministers
and the co-decision process that you referred to
with the Parliament may perhaps take a little longer
in timescale than perhaps has been imagined. You
as a department embarked on a consultation
exercise, which I understand closed in September,
to try and establish the pinch points on the
proposals as far as the United Kingdom was concerned. If that exercise is to inform your Council negotiating position, can you tell us what were the main points of concern raised as a result of your own department’s consultation exercise with the beet industry?

Lord Bach of Lutterworth: Can I say this about the first point that you made, Chairman, that is, that you are quite right that there were 11 countries that expressed some concern and they do in their letter say that they hope that we will be able to find “a fair solution that guarantees the sustainability of the sector, and to this end you can count on our full co-operation”. You can read those words in whichever way you like but I do not think this battle is lost by a long way.

Chairman: Let us talk about the things that you can talk openly and fully about. Let us talk about this consultation exercise. What did it show?

Lord Bach of Lutterworth: It ended on 23 September and we received a lot of responses, 37, from a wide range of interested parties. We also received, thanks to WWF and Oxfam and Bird Life International, more than 11,000 emails and a thousand letters from over 80 countries around the world, and indeed I have had the pleasure of replying to 60 of your colleagues’ letters, Chairman, on behalf of constituents supporting the RSPB in the view they took. You will be disappointed in my answer, I suspect, because we are still considering the responses and we are shortly going to publish a summary of the views expressed.

Chairman: But, Lord Bach, if you are going to be working ferociously to get agreement within the next month to fully reflect the concerns of people in the United Kingdom, for whom you are undoubtedly fighting like a Trojan, I would have thought that by now you should at least have got a flavour of what is troubling people from the production, the processing and indeed the environmental side of this argument. You may not have got the definitive work but what have you been told? If I said to you, what are the top three things that are causing concern, what are they? You must have got some indication by now.

Lord Bach of Lutterworth: Undoubtedly number one, in terms of volume at least, is the RSPB’s concerns over the environmental considerations that might arise with sugar reform. As I said, we have had a mix of views on the matters of real substance. There are those who argue, as I said in my introductory statement, that we are moving too fast and that the price cuts asked for are too great, and there are others who, of course, say that we should get on with this and get sugar reform out of the way. It is many years too late and we should get on with it as quickly as possible.

Chairman: There may be a mixture of views but you indicated to us in your opening remarks that the Secretary of State and your colleague, Mr Bradshaw, would be pounding the corridors of the Council representing Britain’s interests. You have probably got about a month to do the pounding and the negotiating and then you have got the November Council. When it comes to the agenda upon which you will be knocking on doors, what are the issues arising from the consultation exercise that you are going to try to effect on behalf of the United Kingdom industry? Let us start with the growers, the farmers. What is on the agenda for farmers? What are you going to do to respond to their concerns? You said that some people have said that the price cuts have gone too quickly, some of them are too much. What are the issues that you are going to be fighting for UK farmers about?

Lord Bach of Lutterworth: Obviously, we are going to be fighting for farmers in the sense that we are absolutely behind fully decoupled support. Let me make the position absolutely clear. We largely support the Commission’s line. There is nothing that we have received that makes us move away from the proposals made by the Commission in June. I do not mean in every detail but as a whole it is those proposals that we support. Those are the proposals that we will be and have been, to use your expression, Chairman, pounding the corridors of Brussels about, not just in the next month but over the last number of months.

Chairman: I do not want to try and put a framework on them. Judging by the press releases that I have read I can see that you are generally supportive of change. That is not an issue, but you have had a consultation exercise and you indicated to us a large volume of mail. Looking at your impact assessment, both the work that your department and the Cambridge University have done have illustrated some points of concern. If you are going to be negotiating for Britain, if you are doing your job, there may be some things that need to be negotiated about, and if you cannot tell us precisely what the negotiating position is, and in that context I do not blame you, what are the areas that you think need to be discussed further with your ministerial colleagues in Brussels on behalf of the United Kingdom? Just give us a flavour of the agenda, the points of concern.

Lord Bach of Lutterworth: The points of concern for us in the UK are very few indeed because the Commission’s proposals as they stand are proposals that we support, not the general idea of sugar reform, of course we support that, but the details of the proposals themselves seem to us by and large to be sensible. No doubt there are details that we would have differences with the Commission about, but our issues, I think, are the Commission’s issues in the sense that it is other EU members who have real concerns about a whole number of issues based on the Commission’s proposals. I can go through a number of those.

Chairman: Just hang on a minute. Why did you set out to do a consultation exercise to hear the voices of those involved in beet production, beet processing, the environment, development and
all the aspects of this complex regime, and you have
had a lot of people give you some well-founded
advice as to why they think there may be need for
certain changes to be made, and yet you are
effectively telling us that you by and large agree
with the proposal and the problems are everybody
else’s? Why did you embark on the consultation
exercise if it was not to recognise and perhaps
adjust the final mix of policy that comes out of this
regime to take into account the genuine concerns
of people in the United Kingdom? This committee,
and your officials will have reported back to you,
have heard a number of quite technical issues over
the way the regime is being configured that need
some attention and I wanted to know, in the light
of the information that would have been furnished
to you, what you were actually going to do on
behalf of those who have raised issues. For
example, my colleagues are going to talk shortly
about cane processors and the effect it will have on
their business. There are farmers in certain parts
of the country who may face going out of the sugar
beet industry, etc, but we have heard nothing about
a specific agenda. Not to anticipate the questions
my colleagues are going to ask you, just give me a
flavour. There must be something you think is
wrong with it that you are going to negotiate about.

Lord Bach of Lutterworth: As I have tried to
explain, the summary of views which will be
published soon covers a whole range of issues. They
are from growers, they are from processors, they
are from people who have more environmental
concerns, and they are the kinds of issues that you
would expect. The growers would like us in some
instances not to move so fast, the processors
likewise.

Q272 Chairman: Has anybody been through any of
this consultation exercise?
Lord Bach of Lutterworth: Of course they have.

Q273 Chairman: Mr Kuyk, can you help us? Have
you had a look at what is coming?
Mr Kuyk: Yes, chairman.

Q274 Chairman: Then tell us what people have
been saying.
Mr Kuyk: As the Minister has said, there is a range
of views. A number of growers would like price cuts
to be phased in over a longer period and some
would like a greater level of compensation, but I
think there is clear agreement, even among
growers, on the need for reform and particularly
the need to have a clear view ahead and a
framework within which the industry can
rationalise and restructure. Again, as the Minister
has said, sugar users and consumers of sugar have
suggested that the process of reform could be faster
still and could involve a greater degree of
liberalisation than perhaps the abolition of quotas.
On the environmental side there is a range of views
that brings out the evidence we have examined in
our regulatory impact assessment, that, for
example, there are some clear advantages from the
growing of sugar beet in terms of its rotational
value, the fact that it is a spring-sown, broad-leaved
crop, but there are also some other aspects of sugar
growing that are less beneficial to the environment.
As far as the position of cane refiners is concerned,
again, we have had representations that perhaps
the margins for them in the proposals are not
sufficient, but equally we have had representations
from beet processors that do not agree with that.
On most of the issues, and there is a long list of
issues, there is a balance of views.

Chairman: You have got some things. I am going
to pass on to Mr Duddridge but perhaps as we go
through, if there are issues that have come out of
this consultation exercise which relate to the
questions that colleagues are going to ask and on
which you are going to take some action on behalf
of the viewpoints that have been put by people in
the United Kingdom, you might indicate in
response to colleagues.

Q275 James Duddridge: Clearly the Government at
the moment is wearing two hats, hopefully not two
faces. What happens when there is a conflict
between the need for the EU Presidency to build a
consensus and British national interest, particularly
on sugar reform?
Lord Bach of Lutterworth: As I hope I said to the
Chairman, the role of the Presidency is not always
a particularly easy one. We do have to look for
consensus among our European partners in order
that a deal can be done, and on the other hand of
course we have to look after UK interests as we
decide them to be, following the consultation, and
not just the consultation but also what has been
done to us in the consultation exercise which relate to
the questions of the views that people in the United
Kingdom have put by people in the United Kingdom,
you might indicate in
response to colleagues.
Q277 Mr Vara: If I may clarify the point, at the outset of your comments you said that Britain, you, Margaret Beckett, broadly agree with the Commission’s proposals. You have then had a conversation, both with the Chairman and my colleague Mr Duddridge, along the lines, “Yes, of course we have to consider vested interest groups. Yes, of course we have a responsibility as President and we cannot bang too loudly publicly”, and so on. I am not convinced that even privately you are going to be shouting, but your having said at the outset that you are in agreement with the proposals means that the consultation exercise is futile and there is no point in even addressing the issue that there is not a proper balance between cane refiners and growers. For example, are you aware that if Tate & Lyle’s Silvertown refinery closes not only will they lose a thousand jobs but there are another 2,500 jobs that are dependent on Silvertown? One gets the impression that that is just detail.

Lord Bach of Lutterworth: Mr Vara, you could not be more wrong. To take the example that you choose, I have obviously spoken to Tate & Lyle, I have also spoken to their local Member of Parliament, I have had representations made to me. I know about that issue as well as I think I know about any of the issues involved here. Of course it is something that the British Government is concerned about, but part of the difficulty here is our need to remain impartial, particularly when there are different interests at stake, both in the UK and in the EU. I do not think you should confuse the fact that we have not gone shouting around the corridors of Brussels about this particular issue with our not doing anything about it. We have made suitable and proper representations on this issue, as on many others, but I would be surprised, Mr Vara, if you expected us at this particular stage in the negotiations to dot all the i’s or cross all the t’s about those negotiations. Your criticism I think is unfair and it does not show an understanding, if I may say so, with respect, of the role that the Presidency has to play in these circumstances.

Q278 Mr Vara: Lord Bach, if you say that I show a lack of understanding of the role of the UK Presidency you will forgive me if I say that you show a lack of knowledge of your brief in that, other than generalisations, you were unable to give specifics, you were unable to explain what the consultation exercise was about and you are ducking the issue when you simply say that yes, of course you recognise Britain’s interests but then you say, “We have to remain impartial”. With respect, Lord Bach, remaining impartial does not mean to say that you sell away Britain’s interests.

Lord Bach of Lutterworth: Chairman, I absolutely understand why you ask me that question. We will, of course, be talking about these issues to the Commission and we have already talked to them. I hoped you might have gleaned from what I have said already that there was a sympathy and understanding of the position that Tate & Lyle finds itself in because of the proposals the Commission have made regarding cane sugar. That is our position. We are concerned about the June Commission proposals on that matter. It follows that we are therefore making representations about it, but I am not sure it helps us, if I may say so, to get the result we want as regards that particular issue if we go public and say what it is exactly that we are doing.

Q279 Chairman: I think, Minister, that colleagues understand that we would not expect you to put on the public record, if you like, the final balance position that you may be trying to achieve, and you said that you had made suitable representations on these and other issues. All we were seeking after was finding out, of the views of concern that have been put forward by all sections of the UK sugar industry, which are the ones that you have got on your list for further discussion and negotiation, because your own impact assessment, and I quote from page 69 on the point that Mr Vara has just made, says, “Our analysis suggests that the profitability of the UK cane refiner could fall by up to €70 million, which is probably worse than the impact of moving to a fully liberalised market”. I would have expected you to say, “We recognise that is a position and in our discussions we are going to talk with others to see if that matter can be addressed”. All you said was that you had talked to various people about it and you did not want to go any further because you wanted to have this balance position. Are you going to fight for the UK cane refiner or not?

Lord Bach of Lutterworth: Chairman, I absolutely understand why you ask me that question. We will, of course, be talking about these issues to the Commission and we have already talked to them. I hoped you might have gleaned from what I have said already that there was a sympathy and understanding of the position that Tate & Lyle finds itself in because of the proposals the Commission have made regarding cane sugar. That is our position. We are concerned about the June Commission proposals on that matter. It follows that we are therefore making representations about it, but I am not sure it helps us, if I may say so, to get the result we want as regards that particular issue if we go public and say what it is exactly that we are doing.

Q280 James Duddridge: Could I ask you whether you think the timing of this meeting is right, given how little you can say, given the period you are at? Would it be better perhaps to have done it earlier, or indeed later?

Lord Bach of Lutterworth: Thank you for the question. Let me be blunt with you. I do not think the timing is right from where I sit. It may well be right from where you sit but from where I sit I do not think the timing is right. Probably later, after the November meeting, would have been a better time, maybe earlier as you suggest, but I am here now and I will do my best, of course, to answer your questions.

Q281 Chairman: The reason we have this inquiry is that first of all it follows up our honourable involvement in this area already and, secondly, if we are to perform our job of helping those who
wish to articulate their concerns on the future reform of the sugar regime prior to final decisions being reached in November the timing suggests itself. If it is difficult for you all I would say, tough, but we need to be able to produce a report to give our contribution as a committee to your negotiating position.

Lord Bach of Lutterworth: Chairman, of course. Please do not misunderstand me. I did not raise the issue of whether it was perfect timing or not. I am absolutely content with the timing that you have chosen and will do my best to answer your questions. I was asked whether it was the ideal time. I replied no.

Chairman: Let us try another area that might be a bit easier for you.

Q282 Mr Williams: I am not quite sure if it will be any easier. It is a particular concern of UK beet growers that they will be discriminated against because ‘A’ quota and ‘B’ quota will be amalgamated and the price cut will be done on that basis. They believe that the price cut could be more in terms of 50% than 42% for beet itself. Will you therefore oppose the cutting of prices on the amalgamated ‘A’ and ‘B’ quotas?

Lord Bach of Lutterworth: I am going to ask Mr Kuyk to answer this question.

Mr Kuyk: Yes. Clearly there are a number of beet growers who would want a smaller price cut and it is true that the way the present system operates there is recognition of our deficit area status. The Commission’s rationale for its proposals is to move away from the present system, to abolish the distinction between ‘A’ and ‘B’ quotas and have a new quota, and to look at the price as it should apply across Europe in the new situation. Clearly, that does impact differently on different Member States but that, I think, is part of the overall economy of the proposal, that if we are moving from a very specific, very structured regime to a more flexible market-based system there does have to be change. It is almost a truism that if we kept all the arrangements in the present regime there would not be reform, so we accept that there are differences but with regard to the way that compensation is proposed, the fact that it will be fully decoupled, the fact that growers in the United Kingdom have a number of alternative options that are perhaps not available to growers in other Member States, looking at the balance of the proposals as a whole, we will have to take a view when it comes to the later stages of the negotiations on whether this is an acceptable outcome for the United Kingdom or not. That obviously will be a position that Ministers will consider when we get to the point of there being a deal on the table, but we are still very much in negotiation where different elements are being advocated by different parties and it is difficult to say at this point what the final shape of the package will be on that point, and indeed on a number of others.

Q283 Mr Williams: But do you recognise that UK growers are in a more difficult situation than other EU growers because historically they have got smaller ‘B’ quotas because of the import of cane sugar?

Mr Kuyk: The situation of the British growers is not unique. There are growers in other Member States that are similarly deficit areas. They may not all have the same level of cane imports that we have but the fact that a number of Member States are not net exporters of sugar, the fact that they have deficits on their domestic markets, is one of the issues that is under active discussion in the negotiations at the moment.

Q284 Mr Williams: Do you think that the Government will be able to put forward that concern by UK growers and get any result out of it?

Mr Kuyk: I do not want to poach too much on the Minister’s territory but this is one of the issues that is under active discussion and the UK is participating in these discussions.

Q285 Mr Williams: Another concern of the NFU and beet growers is that the compensation envelope for the UK is too small and that in order to be equivalent to other EU countries there should be another €14 million in the year 2007. Do you recognise that?

Mr Kuyk: I think that is a subset of your previous question. The compensation is designed at a level of 60% of the reduction in income. It follows that if you assume a different starting point you come to a different amount of compensation. Again, the UK growers are not alone in drawing attention to what they are saying is that our growers face a bigger than 39% price cut. It is by their calculation 42.6%. Do we agree with the National Farmers’ Union?

Lord Bach of Lutterworth: I do not believe we do. If we look at the impact assessment it shows that B price cuts may not necessarily translate into actual price cuts.
Q287 Chairman: That was not the question I asked. They have done a piece of mathematics. I am interested in whether you agree with the mathematics. The effect is different in the sense that the RIA comes to some different conclusions, depending on the assumptions you take of the type of farming enterprise involved, and that is a rather different argument. I am asking about whether you accept the mathematics of what the National Farmers’ Union say about the relative effects of these price changes on the ‘A’ and ‘B’ quotas that we currently have. Do you or do you not agree with the mathematics and say that the price cut is 42.6%?  

Mr Kuyk: Chairman, we do not disagree with the mathematics. To go back to my previous answer, the present regime has a differential pricing structure that rewards, if that is the right word, Member States that are classed as deficit areas or deficit producers of sugar. The change is to abolish that distinction, to merge ‘A’ and ‘B’ quotas and have a new unified quota with a unified price. It follows that in changing from the one system to the other there is a differential impact.

Q288 Chairman: Let me stop you there. I have got that now. I just want to go back to what you said a second ago. You said that certain things were in active discussion in response to Mr Williams’ question. Could you just tease out for us what the agenda is of those things in this area that are under active discussion? What are you discussing?  

Mr Kuyk: A number of Member States in the Council in a similar position to the United Kingdom are saying exactly what Mr Williams has said, that in those cases the envelope for compensation should be calculated differently. The Commission, whose proposals these are, and it is not for me to answer on behalf of the Commission.

Q289 Chairman: No, I do not want you to. I want you to answer on behalf of what Defra are doing.  

Mr Kuyk: We are participating in these discussions.

Q290 Chairman: This is the point I am getting at. UK farmers have raised this particular point. Our farmers will look at the deliberations today and they will want to know whether, when it comes to the discussions in Brussels in November, Britain is going to be discussing an issue such as this. You said that these are matters that are being actively discussed, so can we have an answer? Is this point, which you agree mathematically that the National Farmers’ Union have put forward, one of the issues that is actively under discussion on behalf of UK growers?  

Mr Kuyk: I cannot say “on behalf of UK growers”. It is under discussion in the Council as an issue of principle in the architecture of the Commission proposals.

Q291 Chairman: I want to know whether the UK has a response on behalf of its own farmer producers to that argument. Farmers are going to say, “Is Mr Bradshaw fighting for me?”  

Mr Kuyk: I find it difficult to answer on behalf of Mr Bradshaw.  

Lord Bach of Lutterworth: There are a number of topics that we are talking to the Commission and to our other EU partners about, Chairman. This, Mr Kuyk has told you, is one of them. We have a number of different interests to maintain here. One of the chief interests is that a compromise and a reform of the EU present outrageously used sugar regime takes place as soon as possible. I do not think, with the greatest respect, that it is fair for you to ask us to put our negotiating position to this committee today if it is going to be held against us or not result in the best possible result from what we want to see happen in November.

Chairman: I accept that your final negotiating position is not one that you would wish to disclose and, having been a Minister who has had to undertake this kind of discussion in the past, I would sympathise with you, but I do actually think that when you go in to discuss on behalf of people in the United Kingdom you should at least be able to say, “This is a subject in which we understand the points that are being made by UK farmers and we will be entering their concerns into the discussions”. What I am being told is that it is being discussed but you seem to be holding back as to whether you are going to discuss it with a British hat on or not. If that is difficult have a think about it. Mr Hall has a supplementary from an earlier question and Mr Duddridge wants to come in, so let them have a go.

Q292 Patrick Hall: Can I step back a bit from some of the detail? I do not think it should be a matter of question or surprise to anybody on this committee or elsewhere that Britain is openly in favour of radical reform of the common agricultural policy—that is widely acknowledged and I would have thought not many people would argue with that—and that reform of the complex sugar regime is just part of that. It seems to me that we are not going far enough along the road to liberalisation but, given the difficulties of your position, Lord Bach, and the timing at the moment, could I just see if you are able to give a personal view now with regard to the long term strategic position of EU and UK beet production because, if we look at the incomparably greater yield of cane sugar, should beet realistically have a future in the UK and in the European? Some other people giving evidence to this committee have mentioned the issue of security of supply. My question may not be very helpful to you at the moment but I still think at some point that we have to look at the wider long term sustainable and global position, and on that matter and from that perspective is it fair to consider that there is a truly economic environmentally wholesome position for EU and UK beet production?

Lord Bach of Lutterworth: There is no doubt that at the conclusion of these negotiations (if they are successful), whatever the final form of the settlement is there will be less sugar produced in the
EU. One of the problems is the over-supply at the moment. There will undoubtedly be beet industries in a number of countries that will be much reduced and maybe even in some cases no more. That is why the Commission’s proposals are concerned to see attempts made to help those industries in those countries where that happens. All the evidence suggests that the British beet industry is, if not the most efficient, among the most efficient in the EU. Our belief is that the British beet industry will survive these reforms. It will be a smaller industry than it is at present but it will survive these reforms because it will be able to adapt to the reforms as they come out. We do not see these reforms as being the death of the British beet industry. I know there are many, and you are one of them, who say that these reforms do not go far enough, and indeed there is an argument that way. What we are effectively doing is changing a ridiculous position where EU prices are three times, on average, world prices, to one where EU prices are two times world prices. From a particular point of view that is not much of a reform. From another point of view it is a huge reform because we have had 40 years of this nonsense that has led us to the present position.

Chairman: Have you finished your question?

David Taylor: That is it. It has been worrying me.

Q295 Chairman: I do not want you to leave here with a troubled mind, so, Mr Kuyk, put my colleague out of his misery. I want him out of the molasses quickly.

Lord Bach of Lutterworth: I think I have been caned quite enough by Mr Taylor, so can I immediately confess that I was wrong about the NFU figure mathematically. Mr Kuyk is the person who knows about this sort of thing.

Chairman: Are you content, Mr Taylor?

David Taylor: I am content for the time being, indeed there is an argument that way. What we are effectively doing is changing a ridiculous position where EU prices are three times, on average, world prices, to one where EU prices are two times world prices. From a particular point of view that is not much of a reform. From another point of view it is a huge reform because we have had 40 years of this nonsense that has led us to the present position. I think there is a future for the British beet industry. It will be a reduced industry. Please do not ask me how much it will be reduced by because, literally, this particular negotiation that is going on, one does not know precisely what the results of the reform will be.

Q293 Patrick Hall: Do you personally think there is a security of supply argument that underpins production in this country and other parts of the EU despite the much greater yield of sugar cane?

Lord Bach of Lutterworth: Security of supply is a difficult one. I am naturally inclined—and you asked my personal view—to want to see British farmers grow the excellent food that they grow, but at the same time in the end security of supply depends on good relations with other countries in order that we have a constant source of food because this is a country that cannot be self-sufficient in food growing, so it is a balance. I do not think the security of supply argument is the most powerful one in this case.

Q294 David Taylor: It might be me, Chairman, but so far I have found this session rather akin to wading uphill in, dare I say it, molasses. Do stop me if you feel I am taking it back to something that you thought had been resolved, but I need figures to hang on to as I drown. We had an answer to the last question in relation to whether or not the UK Government accepts as broadly correct the assessment that €14 million was needed in 2007 if the UK growers were to have equitable treatment with EU Member States. There was a dispute on the figure and Mr Kuyk said that he thought it was about right.

Lord Bach of Lutterworth: Can I say I am sure I was wrong about that. Let me put that on the record.

Chairman: Can I just tease out a little point of clarification? You have made it absolutely crystal clear that decoupling is a crucial element of the Commission’s proposals and that you support it, but in the statement that came out of the Council of Ministers in terms of the questionnaire which was submitted by the Presidency, they said, “Some delegations consider that there should be a
possibility of flexibility for the Member States so as to allow for the possibility of targeted partial decoupling”. If there is a compromise proposal that comes out for the November Council that has some partial decoupling do I take it as implicit that Britain would oppose that?

Lord Bach of Lutterworth: I do not think you can take it as implicit that we would oppose it. I have put our point of view, which is that in all the reforms that have taken place, Chairman, the decoupling principle is of great importance.

Q298 Chairman: So it is of such importance but you cannot tell us whether you would oppose it or not?

Lord Bach of Lutterworth: Chairman, I do not think you would expect me to, would you? I do not know at this stage whether this is a show-stopper or not a show-stopper and even if I did know I am not sure I should say.

Q299 Chairman: All right. We will have to make our own judgments.

Lord Bach of Lutterworth: Can I just say that we will certainly argue pretty strongly for full decoupling. That is the way we have gone.

Chairman: That is good. Thumbs up. We are nailed on one thing very clearly, that you are going to be fighting for full decoupling and we will tick the box on that.

Q300 Mr Drew: I am pleased to hear that, because to me sugar is the most blatant example of where the EU’s CAP is a monstrous policy. I do not think there is any rational explanation which can say that it is anything other than the worst example, so I am pleased to hear that you are saying you will fight for decoupling. I do think that that is something that should be taken as an absolute given and that those states who will not fully decouple should be exposed, and we should be going into those negotiations to say that if they continue to use any device to maintain the current regime then that is worthy of, dare I say, a bust-up of an explosive nature, given what is coming up in November, to prove that those on the side of the angels are really prepared to fight and die on the side of the angels rather than have what always seems to result, a real fudge.

Lord Bach of Lutterworth: I absolutely agree with you, if I may say so, about the sugar regime being the worst example of all, for a whole number of reasons, in terms of a protective regime. If I may say, I hear exactly what you say about the importance of this and I suspect many people will share your view.

Q301 Lynne Jones: I have an open mind on this issue. Could you explain why you are so committed to decoupling and what will be the negative effects if there is some compromise on this issue?

Lord Bach of Lutterworth: It seems to me that over the last 30 or 40 years, and if I am technically wrong about this Mr Kuyk will put me right, what has happened as far as British farming is concerned is that it has in some respects become part of a dependency culture. In other words, British farmers, who have the very highest and deserved reputation, have grown food crops regardless of whether there was a demand for them or not, but have grown them solely in order to receive a subsidy from the EU. As a consequence we have had sometimes massive over-production, sometimes production not always done in an appropriate way as we would like in this modern age, and farmers have come to expect as a matter of course that whatever else happens, provided they grow the food, the cheque will come from Brussels year in, year out. Farmers themselves, I believe, think this system is both wrong and outdated and what is needed is that farmers, like everyone else, have to find a market for the food that they produce and what they should be rewarded for is what we call public good, that is, making sure that the countryside, the landscape, is as good as the general public are entitled to expect. I am fairly new, as is pretty apparent to the committee, but it has struck me in the last few months that the subsidy system gave all the wrong signals. I think British farmers are quite capable of finding a market for themselves with the excellent food that they produce and we will help them as much as we can, but we will not help them by way of just giving them subsidies for producing food per se. That is why I feel strongly about this issue.

Q302 Chairman: I want to go back to raise with you the way in which the compensation payments are going to be made and what will happen to them over time. Perhaps you could explain to us what will happen over time, starting with a historic payment and then, I presume, moving to an area arrangement where effectively the amount of a sugar beet producer will diminish over time. Is that right?

Lord Bach of Lutterworth: We have made no decision finally on how this compensation is to be paid. The method you suggest is the one that we would use if we do what we have done before.

Q303 Chairman: That is very interesting, because obviously the reason I am asking the question is that there are some who feel that the compensation mechanism should be focused uniquely on sugar beet producers, the farmers who are doing it now, as opposed to generalising it into a general pool. Is that kind of specific payment regime one of the options you are looking at?

Lord Bach of Lutterworth: I thought we had already to some extent dealt with this in the sense that the decoupled payments the farmers will get (if we use this model, I am reminded) will begin at a very high level of historic element but will come down over the years ahead so that in the end there is no historic element to it but just a cross-compliance element. It will start at a high level, 85% or 90%, if we use this model, and then reduce over the years ahead, I think to about 2014, when there will be no historic element to it at all.
**Mr Kuyk:** At this stage, of course, we do not know what the final package is going to say on the question of compensation. We have already had a discussion about levels of compensation and the methodology for calculating the figures. We have also touched on the desire of some Member States to go for some form of partial recoupling. At this stage I think it is very difficult to be precise about the model that the UK would adopt on a range of possible outcomes. I think what the Minister has described is the hypothesis that if we integrate sugar payments into the system that we have used for other commodities under the earlier reforms the result would be as you have described, starting with an historical element which would decline over time towards a fully area based payment. Ministers have not reached a decision on this yet, not least because we are not sure what the terms of the final package are going to be on the question of compensation.

**Q304 Mr Drew:** This has got all the makings of another historic muddle because this is where some of us got lobbied relentlessly by different parts of the NFU, over the whole way in which different parts of agriculture would be decoupled. I am very sympathetic to dairy farmers in the South West, but you cannot have a national scheme which then suddenly becomes subject to regional compromises. I think a lot of farmers are very confused now by the signals that are being passed through various convoluted negotiations. Either farmers are encouraged to produce beet or they are not encouraged to produce beet. It cannot be a case of they are encouraged to produce beet this year and then suddenly it all disappears. Perhaps holding the ring as it were?

**Chairman:** I think what Mr Drew was getting at was a little more refinement than the overall picture which you adhere to. He used the word regionalisation. Am I right in saying that?

**Mr Drew:** Absolutely.

**Chairman:** That was the bit I was hoping you were going to respond to, because what he was talking about was the juxtaposition between the sugar payments into the system that we have used with his growers before taking advantage of the restructuring scheme that the new regime allows for. Many Member States have requested further clarification of this and this is one of the matters going to be dealt with in future negotiations. Also touched on the desire of some Member States to have a line on the general issue of what farmers should produce. We believe that decoupling means it is up to farmers what they do and how they do it. What they should not rely on is a subsidy they relied on before. That should not be different in the South West from what it is in the east of England. The NFU does speak with regional voices as well as with a central voice. I hope that we can deal satisfactorily with that. You know what our preferred model here is, I have made it quite clear and that is that this should be decoupled and there should not be hidden incentives like there used to be under subsidy. We are strong on that, but whether we actually succeed with it, that is the only caveat here. We will do our best to.

**Q306 Sir Peter Soulsby:** I would like to take up another aspect of what the NFU has said to us because they have spoken to us about the balance between the beet growers, the processors and the Government’s role in that relationship. They have put it to us that in this relationship there is an imbalance that has arisen over a period of time in the grower/processor relationship that has now skewed the power in that relationship towards the processor. Is that a description that you would recognise, and what is the Department’s role in perhaps holding the ring as it were?

**Lord Bach:** I recognise the issue. You will know that under the existing regime quotas are allocated by Member States to processors who then contract with growers to produce the quantities in question and that relationship is governed by the Inter-Professional Agreement which is set out in the existing quota regime itself. The current proposals for reform would not alter that basic arrangement. What they do, and this is new, is they provide specifically for an additional consultation process between the processors on the one hand and the growers on the other. The processor has to consult with his growers before taking advantage of the restructuring scheme that the new regime allows for. Many Member States have requested further clarification of this and this is one of the matters that is under discussion and will have to be resolved if there is to be an agreement by November.

**Q307 Sir Peter Soulsby:** If there is to be a new Inter-Professional Agreement under the new regime, what role do you anticipate Defra playing in the establishment of that?

**Lord Bach:** I think to some extent we are holding the ring here between the growers and the processors. It is not for us to lay down what that relationship should actually be. We would always suggest that processors should bear in mind very much the particular difficulty that growers may find themselves in by unilateral action taken by
processors. That is why I am sure we support the idea of there being consultation between the two before the processors go for voluntary restructuring.

Mr Kuyk: The Inter-Professional Agreement is provided for in the regime but it is not at the level of the Council regulation itself, it is in the detailed implementing rules which would have to follow a decision on a new regime. Obviously we would want to ensure that when we get to those detailed implementing rules we had a replacement Inter-Professional Agreement that provided for a fair balance between all parties. There are not even proposals on that under discussion at the moment because that is the second stage. Once the Council has agreed the basic framework for reform there will then be a series of implementing measures covering a range of subjects of which this will be one, but the Government’s position would be clear, that we would seek new terms that provided for a proper balance between the parties.

Q308 Mr Williams: As a result of the abolition of the ‘C’ quota there will be quota available for Member countries to purchase. I think it is about 82,000 tonnes for Britain. In your opinion who will actually own that extra quota, will it be the state, the processors or the growers?

Lord Bach: I understand there is a phrase that says no one owns quota. If the question is whether the quota is owned by the processor or the country or grower, the answer is no one actually owns the quota, so I think that would be a difficult question to answer.

Mr Kuyk: I think that is right. Quota as such is not owned. The proposal here for this additional 1 million tonnes of former ‘C’ sugar is that this would be allocated to companies in return for a payment from those companies, so the money would come from the company concerned. I think lawyers would have to argue about whether that confers ownership. The payment would be for the right to produce sugar to that level, but given that quota under the existing regime does not have an ownership, although under the existing regime quota is allocated free of charge to processors, so the concept of a processor company paying to acquire new quota is a novel idea. Again, it is under active discussion, it is part of the Commission’s proposals, but it is an area that is giving rise to much debate within the Council. I do not have a clear answer as to whether the payment from a processor to acquire the right to produce this additional sugar would constitute ownership. I think that is something that remains to be seen. As it is a novel concept I do not think there is an actual legal doctrine on this at the moment.

Q309 Mr Williams: If I understand you correctly then a beet processor, which is British Sugar in the case of the UK, would pay the Commission to acquire something that it would not own.

Mr Kuyk: It would be paying for the right to produce an additional quantity of sugar. I cannot put it more clearly than that. That is what it is paying for.

Q310 Mr Williams: So you cannot foresee any scenario in which the British Government would actually pay the Commission for this quota?

Mr Kuyk: No. The proposal is that the right to produce these additional quantities would be on offer to the commercial concerns who are interested in return for a payment from those commercial concerns which would then go to the EU budget.

Q311 Mr Williams: With all the people surmising that there will be less beet produced in this country, do you think that quota will have any meaning anymore in the UK beet producing industry?

Mr Kuyk: I think I might ask Dr Smith to give a reply based on economic theory about the relationship between quotas and price cuts. Clearly if the price is cut at a certain level where production falls short of quota then quota no longer acts as a constraint on the production, which is what it was designed to be, but maybe Dr Smith would wish to elaborate.

Dr Smith: I think that sums it up, actually.

Lord Bach: Speaking at a more general level, we share the view as a Government that your Committee, Chairman, expressed last July, which is that in the long run certainly we would be better off without a quota system at all with this particular commodity.

Q312 Chairman: Let us say just for argument’s sake and hypothetically that as a result of this British Sugar decided to close a beet factory and a group of beet farmers decided to put a bid for it, would they get a share of this 82,000 extra to keep it going? Would you like to reflect on that in case it is difficult?

Lord Bach: There is one 1 million tonnes of former ‘C’ sugar that is available for purchase in this way. There is an allocation key which would give the United Kingdom companies the right to 82,000 of that. At the moment there is only one processor of sugar. If there were a new processor of sugar in future who wished to bid, that would be a situation that would have to be considered at the time. It is very much a hypothetical situation. At the moment there is only one processor of beet sugar. I cannot give you a definitive answer as to a hypothetical situation where there might be another processor who wished to bid for that.

Q313 Mrs Moon: We have been wading through molasses a bit today I would like to talk about sweeteners in a sense. You talked about the beet protection that has been going on as the worst example of a protected regime but, equally, we have here a history of price fixing and a lack of competition in the marketplace. Are you going to be recommending that the competition authorities...
investigate the UK sugar market? If you are, what measures would you recommend that they put in place to improve competition? **Lord Bach:** I am well aware that this Committee recommended last year that if the UK sugar beet quotas were not abolished through reform there would be a case for competition authorities to conduct an investigation into the processing industry in this country. Let us wait and see. We think the present proposals represent a considerable step forward in the operation of the quota system, the merger of ‘A’ and ‘B’ quotas, the abolition of ‘C’ sugar and the possibility of some expansion for the most efficient producers. The Commissioner herself in Brussels has said that she will return to this issue if these changes do not result in a significant liberalisation of the internal market and that is a view that we absolutely support. We think it is too early to give a definite answer to your question, but if there is not a significant liberalisation then it is certainly an issue that we will want to consider.

**Q314 Lynne Jones:** I would like to ask some questions about assistance to ACP states. We have had representations from them and they say that the proposals will have a devastating effect on them, and they suggest that the initial proposals for compensation to ACP countries are basically paltry in comparison with what is being proposed for EU farmers. There is now concern that there is a pressing ahead with the agricultural aspects and leaving the accompanying measures affecting ACP countries to a later date. Could you comment on that? What consultation do you have with other relevant departments in this context, DFID and the DTI, because some of the reform proposals are in conflict with the mission statement of DFID particularly in achievement of the Millennium Development Goals? **Lord Bach:** This is an issue of some concern to us at the moment. We do not think that there has been enough advancement in this particular aspect—and a very important aspect it is—of the reforms as we would have hoped by this stage. That is not to say we are not working very hard to try and resolve them. As far as other UK Government departments are concerned, we work very closely with particularly the FCO, DTI and DFID in order to try and resolve what is a real issue as far as our traditional ACP suppliers are concerned. You will know that at Presidency we invited the ACP and the LDC to meet the Council and the Commission in Brussels in September following an earlier meeting in January and we are also seeking to ensure that the Commission’s action plan proposals proceed in parallel with the reform, and we are still attempting to do that. The fundamental element of the action plan is that the arrangements should be country specific and agreed in discussion with the countries concerned. I believe there are a whole series of bilaterals that have taken place and are taking place between individual ACP countries and the Commission itself. Assessing the funding required for these issues and for how long it should be is closely linked to progress on the plans themselves and that depends on this two-way dialogue. You will know that the 40 million euros proposed by the Commission for 2006, which would effectively be for just over half a year, reflects an assessment of known plans for that six month period. Importantly, the Commission has now indicated that substantially more will be required throughout the next financial perspective up until 2013, but it is not possible for figures to be agreed until the European budget as a whole is settled. This is one of those issues that the Chairman was pressing me on at the start of the meeting where we feel we have a real concern and interest particularly because of our history and our tradition as far as these ACP countries are concerned.

**Q315 Lynne Jones:** You talk about substantial increases, but a substantial increase would be a doubling and yet to the ACP countries it would not compensate them for their losses and give them sufficient time to diversify their economy. What is the definition of substantial? Obviously we do have to take into account individual countries’ needs, but are you not attempting to divide and rule there and will they not want to have some collective voice on these issues? **Lord Bach:** The ACP as a whole has met with the Commission on occasions. It is country specific; each country has different interests here. Substantial can sometimes mean very little. It can sometimes mean more than doubling. By substantial we mean really substantial in the context of the figure that I gave you.

**Q316 Lynne Jones:** The ACP countries say that the proposals go against the Cotonou agreement. Are there many legal issues there? **Mr Kuyk:** It is difficult to give a short answer to that. The short answer is the Commission have assured Member States that the proposals are fully compatible with its existing international obligations and the Commission would not have made its proposals if it did not believe that. Obviously it is open to other people to challenge that assertion, but that is the premise on which the Commission has made its proposals. **Lord Bach:** Can I just say one more thing on the ACP? This is one of the things that have been quite wrong with the whole sugar regime. To give the ACP these preferences which is very much in their interests at the time and give them to all ACP countries has meant that some countries, like some European countries, have sugar industries that without those preferences, without that artificial EU price, frankly, they would never have had and they might well have benefited by having industries in other fields rather than in sugar. That is one of the realities we have to face.

**Q317 Lynne Jones:** I understand there is an issue of water as well.
Lord Bach: Indeed. There is no long-term interest for all ACP countries to necessarily carry on with sugar production provided they are assisted and helped to move into other industries. I just wanted to make that point.

Lynne Jones: I think they accept that.

Q318 David Lepper: The support for the ACP countries is something that is subject to the co-decision procedure between the Commission and the Parliament.

Lord Bach: That is right, yes.

Q319 David Lepper: Is there a danger that agreement could be reached in terms of the agricultural aspects of the proposals so far as they affect EU producers before agreement is reached on the support for the ACP countries, and what could be the implications if that were so?

Lord Bach: It is possible. Obviously we would prefer them to be done in parallel, but it is possible. Your point is well made.

Chairman: Gentlemen, thank you very much indeed for contributing to our enquiries. As always, you cannot undo that which you have said, but if you want to write to us further on any points for clarification or adding information then the door is still open to you. Thank you very much.
Written evidence

Memorandum submitted by J P Agronomy Ltd

SUMMARY
The financial implications for the farming and rural community especially small family farms will be severe and the negative environmental considerations difficult to comprehend. I am fearful about the effect on the third world from the proposals and voice concern on the environmental damage to the world in the countries that will take over sole production of sugar. We should reform the system not destroy it.

INTRODUCTION
1. I believe the sugar regime is long overdue for reform. We have dumped sugar on the world market for which we should be ashamed! However I believe reform is necessary not destruction of the industry as proposed.

2. I am an agronomist in North Norfolk and visit many farms in the locality. I advise on both conventional and organic systems with particular concern with low impact farming to encourage wildlife, in particular insect life. Insects are the glue of ecosystems, as I will explain later. If we increase insects we will automatically increase higher order animals. Sugar beet fit well into these ideals.

THE PROPOSED REFORM
3. Financial impact of reform
   — For most growers (who have become more efficient in the last few years) the cost of production is £17 per tonne in good years and rising to £18.5 in poorer seasons. For the last few years we have not had severe droughts which would increase the cost per tonne still further. I would be happy to show my workings for this cost, if a desire to do so.
   — At the proposed level, of £17 (or less) most growers would be forced to give up growing sugar beet, it will not be a difficult decision, the proposals will give a negative return to the grower.
   — The cost of haulage will go up in the near future (oil price rises) so that if the local factory gives up, there will be another increased cost which will make it unviable.
   — The costs to agriculture increase as the prices they are paid reduce.

4. Alternate land use
   — The crop will be replaced by ‘another’ break crop, most likely winter sown Oil seed rape. At present this seems to be the logical switch. Very little oil seed rape is grown in the sugar beet areas, it being the alternate host for beet cyst nematode.
   — This will reduce the spring crops in the area.
   — Our soil types do not take to 2nd wheat crops well, the yield reduction is immense from diseases such as take-all therefore a break crop must be used.

5. Implications for small family farms
   — Without the sugar beet crop it will make many small farms no longer viable, many of whom grow sugar beet on a one in three basis, the crop has been the backbone of the farms’ income.
   — To survive the farms will have to increase the economies of scale, and consequently agribusiness will increase at the expense of small farms.

6. Implications for the local economy
   — This will be drastic.
   — There are many businesses reliant upon the sugar beet crop who are not in the first instance farmers. Obviously, in my case 25% of my income is derived from the crop and, although some would transfer into other crops, I would still lose income.
   — The machinery involved in the production of beet is high and the support services large.
   — The haulage businesses are reliant upon the crop locally and they would be greatly affected.
   — Man power on farm is required to grow the crop.
   — The estimates are 10,000 jobs involved both directly and indirectly will be lost from an already damaged rural industry.
7. **Implications for trading partners**
   - The Afro-Caribbean countries supply us sugar at our inflated prices.
   - The reform will destroy their whole way of life.
   - Oxfam are so worried that these countries will not be able to compete and wholesale devastation of their economy will automatically occur.
   - The proposed reform will create whole countries that rely on aid rather than trade. I am glad this is not on my conscience!

8. **WTO**
   - To the uninformed, the WTO ruling brought in the first instance by the rich producing countries/institutions looks fair.
   - However these producers are agribusinesses, they have not regard for the implications in other countries.
   - I would question how many families are involved in sugar production in Brazil?
   - Brazil is a country that is destroying rainforest at an alarming rate!
   - Who will benefit?
   - We will pay.
   - The poorer states of the world will pay!
   - The decision is totally financially driven.

9. **Environmental impact of the sugar reform in the UK**
   - This will be huge.
   - Perhaps this should be at the top of the agenda, as it is a bigger concern of government than farming at present.
   - To remove the sugar beet crop will change the amount of overwintered stubbles we have. It is so important to maintain overwintered stubbles to allow birds to feed on them. It gives many birds the food source they require to live over the winter months. It is no good producing wonderful areas for birds to nest and brood rear if we condemn them to starve in the winter for lack of food.
   - To created differing habitats throughout the environment, a patchwork of crops is the best way of increasing wildlife. It creates food supply and habitat for many important species.
   - Habitat of the crop is of great importance—the skylark numbers in North Norfolk are extremely high. These will be severely reduced without the breeding habitat.
   - Stone curlews (thanks to farmers such as Chris Knight) are making a very slow but sure increase in numbers in the sugar beet crop.
   - Brown hares are in numbers that can be considered as a pest locally! This is partly due to the crop’s architecture.
   - Pink foot geese. We are fortunate enough to have one third of the worlds’ population overwintering in North Norfolk. The feed on the discarded tops of the crop after harvest. Most farmers leave the tops for them and plough and drill the next crop after the have migrated. I suggest that members of the committee who have not seen the most wonderful sight of the geese coming in to roost on a winters’ night should come up to Norfolk this winter and witness it before it is diminished by this review.
   - The level of environmental benefit is enormous.
   - From my own work the species of carabid & staphylinid beetles (ground beetles) changes dramatically and positively when we change from winter cropping only to introduce spring crops. Briefly, most beetle species are in the environment for limited periods through the year and we increase the number of pterostichus species under winter cropping regimes at the expense of other species. If we increase the one species as mentioned there will be a corresponding reduction in other species. Those species adapted to the winter cropping regime proliferate. If the beetle numbers are low in the early spring, then the resulting food supply for song bird chicks is corresponding low. To produce food for song birds we must have a constant supply of insects through the spring and summer and the sugar crop will provide this. Sugar beet itself harbours many insects that become bird food.
10. The Sugar beet crop as it stands provides benefits for us all but will be destroyed if the cuts go ahead as proposed. Positive suggestions might be to
   1. reduce the base price to £24 per tonne;
   2. to reduce the A & B quotas by 5–7% and increase the level allowable from poorer countries by a corresponding amount;
   3. to stop ‘dumping’ on the world market by either having a quota system that allowed a tonnage of the crop to be carried forward to the following year for an individual grower. Thus if a grower over produced one year he would be required to under produce the next and no money would be paid for the over production until that following year, or
   4. to create a bio-ethanol use for the “extra” crop. This of course should have been done years ago but the system was too easy simply to dump the excess on the world market.

I urge the committee to think positively about the long overdue reform but in your deliberations please be very aware of your responsibilities to this country as well as the world stage.

J P Agronomy Ltd
July 2005

Memorandum submitted by The Tenant Farmers Association

INTRODUCTION

1. The Tenant Farmers Association welcomes the opportunity of providing written evidence to the Select Committee as part of its inquiry into the reform of the EU sugar regime. The Tenant Farmers Association exists to support and promote the interests of tenant farmers in England and Wales. Many of our members grow sugar beet on their holdings and are greatly concerned by the proposals that have been tabled by the European Commission in the wake of the decision of the WTO Appeal Panel.

PRODUCTION, CONSUMPTION AND TRADE

2. The United Kingdom currently produces some 1.1 million tonnes of sugar from beet in each year. Domestic consumption is some 2.2 million tonnes per year and the difference is made up by imports. It is therefore quite clear that the UK does not contribute to EU sugar surpluses. It would therefore be unfair if UK producers were to face a disproportionate cost as a result of any reforms—particularly in relation to any future cuts in quotas. EU surpluses are exacerbated by the EU’s commitment to bringing in sugar from the Lomé countries under a system of preferential tariffs. These African, Caribbean and Pacific countries obtain great advantage from those export preferences and there is significant concern about the impact of reform in the EU on them. Taking into account the Lomé sugar, total surplus sugar in the EU is some 2.5 million tonnes.

3. It is also essential to consider the position of other, less developed countries (LDCs) covered by the WTO’s “Everything but Arms” (EBA) commitments. These countries could also lose out if there is significant change in the EU regime. All countries with EU trade preference arrangements have already expressed a clear concern that the price reduction being proposed by the European Commission would make it economically impossible for them to produce sugar at a sufficiently competitive price in comparison to other world market sugar. There is therefore a high risk that they will react by importuning sugar on the world market from countries like Brazil, who have considerable cost of production advantage, and that this sugar will find its way into the EU market.

4. The TFA recognises that the Commission is proposing a support package for these countries, but believes that it would be insufficient to meet the level of need. The EU will have to find the delicate balance between a rational reform of the Sugar Regime and ensuring that the floodgates are not opened to large amounts of world market sugar coming into the EU. The TFA is concerned that the price cuts being proposed are much too large to achieve this balance.

EXTENT AND TIMESCALE OF THE PROPOSED PRICE REDUCTIONS

5. The TFA questions both the extent of the proposed price reduction and the suggested reduction in quota that will be required in order to bring the EU market back into better balance. Taking into consideration the sugar imported to the EU, domestic consumption is around 2.5 million tonnes below the total amount of sugar available in the EU. It is this 2.5 million tonnes which is exported into world markets. In conversations with British Sugar in 2004, the TFA was told that a quota reduction of around 2.5 million tonnes across the EU together with a 20% price reduction would bring the market back into balance. We are therefore somewhat at a loss to understand why the Commission believes that the price
cut needs to be double that figure and that they are looking for a more substantial reduction in the amount of production. The TFA believes that these figures need to be examined closely so that an accurate picture can be formed.

**IMPACT OF PROPOSED REDUCTIONS IN PRICE UPON CONSUMER PRICES**

6. The TFA is doubtful that the price reductions proposed by the Commission would be passed to consumers to any real extent. In other areas it is clear that the price received by producers represents only a tiny fraction of the total cost faced by those purchasing items from retail outlets. If we take for example the milk market, recent research in Scotland (carried out by the Milk Development Council for the NFU of Scotland) has shown that only 10% of a recent uplift in the retail price of 1.5 pence per litre filtered through to the producer. Given that sugar derived from sugar cane and sugar beet already competes for space on supermarket shelves and that prices are very similar, the TFA does not believe that there would be any noticeable reduction in price to consumers as a result of these institutional price cuts.

**IMPLICATIONS FOR UK AGRICULTURE WITH PARTICULAR REGARD INTO POSSIBLE ALTERNATIVE LAND USES**

7. The TFA has grave concerns about the impact of these proposals on UK agriculture. Sugar beet is an important crop in the rotation and it is one of the last remaining, reasonably profitable crops. It is not easy to grow and requires specialist management and soil types. If beet prices fall to between £17 and £20 a tonne which they are likely to do under these proposals, then the economics of growing sugar beet in England becomes very marginal. Time and time again producers are expected to receive prices which are less than the cost of production and this seems to be no different for the sugar sector. There is a limit to how much we can go on providing a productive market on those terms.

8. A significant area which should be exploited is the production of bio-ethanol from sugar beet for mixing with oil-based fuels. Currently the UK is exporting raw sugar to Germany where it is being refined into bio-ethanol and then re-imported by us. The Government should be working to ensure that more of the value added in this process remains at home. The Select Committee should recommended that the Government examine the reasons for this pattern of trade and ensure that action is taking to provide greater incentives for the process to be internalised within the UK.

**THE PROPOSED ARRANGEMENTS FOR COMPENSATING EU PRODUCERS**

9. The TFA agrees that producers should be compensated for the price cuts that they will experience. However, we are concerned that the compensation will only be paid up to 60% of the level of the price cut. There does not appear to be any technical, legal or moral justification for this level and the TFA would continue to argue that compensation should be paid for 100% of the price cut.

10. It is important that the price cut compensation is paid in relation to contract tonnages held by individual producers. The TFA is adamant that these payments should not in any way be linked to land. Land linked payments and quotas serve only to create inefficiencies and to provide benefit for the owners of those assets rather than producers facing the transition.

11. Whilst the European Commission’s proposals indicate that the compensation should be payable with Single Farm Payment, the TFA is also concerned to ensure that any compensation payable remains with sugar producers and does not become dissipated across all Single Farm Payment entitlement as might be the case under the system chosen by England to introduce the Single Farm Payment Scheme. The dynamic hybrid leading to a flat rate payment would leave sugar producers severely exposed where they have seen their compensation diluted across all entitlement holders. The TFA would wish the European Commission to develop a mechanism to ensure that compensation for sugar price cuts was ring fenced for those producers who are affected. This must not be an enabling piece of legislation but a requirement on Member States.

**CHANGES TO THE QUOTA ARRANGEMENTS**

12. The TFA notes that quotas are to be extended until 2014–15 and that there is to be a voluntary restructuring scheme to encourage a reduction in the amount of capacity and associated contract in each country. We have yet to hear exactly how much of the restructuring scheme money will be available for payments to producers. We would like DEFRA to come forward with some guidelines or suggestions as to the split of the compensation money between producers and factory owners.
CONCLUSION

13. The TFA believes that the sugar reforms go further and deeper than they need to. There are many issues to be resolved not least in terms of the payment of compensation and the way in which the quota buy-up scheme will operate in the future. It is essential that DEFRA provides a clear view on these points before it proceeds to negotiate further in Brussels.

Tenant Farmers Association

August 2005

Memorandum submitted by the Food and Drink Federation

The Food and Drink Federation (FDF) is the voice of the UK food and drink manufacturing industry. Our industry is the UK’s largest manufacturing sector with an annual gross output of over £69 billion. FDF has a diverse membership which includes the UK’s two primary sugar processors, four starch manufacturers and a large number of sugar and sweetener users.

FDF broadly welcomes the Commission’s sugar reform proposals which were tabled on 22 June 2005. We have considered these carefully and would now like to offer policy-makers some preliminary comments which are set out below:

1. BASIC POSITIONS

Starch manufacturers1 would like production quotas to be abolished. If they are to remain, manufacturers would like to see a significant expansion of the isoglucose quotas in order to help offset any institutional price cut for sweeteners and to realise economies of scale.

Sugar processors accept that reform of the EU sugar regime is inevitable. Processors would like to highlight the complex and sensitive issues that reform raises and the severe financial impact the proposal would have. Tate and Lyle welcomes attempts to ensure some measure of equity and security in the supply of raws, but believes the proposed cut to its refining margin is disproportionate and its exclusion from the private storage system and the lack of a facility to lower its raw material price is discriminatory. British Sugar welcomes plans to introduce a voluntary restructuring scheme for the industry, but is concerned that the proposed price cuts go too far and that the proposal is lacking on the external trade side.

Sugar users would like to see production quotas abolished and a market price develop for sugar and sweeteners. They are concerned that the proposal does not contain any mechanisms to ensure that there is real competition between EU sugar processors, or that the domestic “market price” for sugar will be driven by the “reference price”.

The comments below should be considered in the light of these overarching positions.

2. GENERAL COMMENTS

FDF members are concerned by the vagueness of the reform proposals and the power that they confer upon the Commission and the Sugar Management Committee. We appreciate the desire to reduce complexity in the Council regulation but believe that this has been taken too far. Further elaboration of the proposals, and notably of the new tools which the Commission plans to introduce, is urgently needed. The Commission should also produce full details of how it plans to exercise its powers when designing implementing legislation.

3. TIMING

FDF members appreciate that additional commercial certainty will be created by extending the life of a new Sugar Regime until 2014–15. However, none of our members would like to see the regime as described in this Commission proposal, lasting until 2014–15. We accept that it may be unwise to provide for a full scale mid-term review of the regime. However, many of our members believe that a provision to enable occasional “health checks” should be introduced, especially as a number of the Commission’s proposed mechanisms are new and it is unclear how effective they will be.

4. PRICES

FDF members are unconvinced that the proposed reference price system would actually work and are unsure what real impact it would have on EU market prices, especially as the number of EU sugar suppliers will contract under the current proposal and the future of the external sugar tariff remains unknown. FDF members note that the existing reference price system for pigmeat does not work as an indicator of internal

1 The term starch manufacturers refers to producers of isoglucose and glucose syrups.
market prices. Sugar processors would like to retain the intervention purchasing system as they are not convinced that the reference price system would offer an effective floor to the internal market, and as they will still be required by law to pay minimum prices for raw materials. If institutional pricing for sugar is to remain, sugar users believe that the new system must drive actual market prices.

FDF members appreciate that some form of price reporting system will be necessary to ensure the effectiveness of the new reference price system and to activate the private storage scheme and import quota provision. We are concerned however by the Commission’s reluctance to elaborate upon how the system would work and how the triggers for market intervention would be set. We note that previous price reporting systems for sugar, and a number of other commodities, have not worked well in the past. Lessons must be learnt from these experiences. Price information is commercially sensitive and its publication may not be the most effective way to promote a competitive market. Furthermore, sugar is not a simple bulk commodity and prices vary considerably depending on quality, service specification, time of the year, contract duration and other factors. Accurate reporting would require price figures to be broken down significantly and this may be unhelpful for both processors and users.

FDF members agree that there is insufficient information available to judge the merits of the proposed private storage scheme. However, at first glance the proposal appears unstable, unrealistic and not helpful to the UK. This scheme is being proposed as one of three mechanisms to aid with the disposal of surplus sugar. We expect it will be the Commission’s last resort as it will be required to pay the bill. Tate and Lyle believes its exclusion from this scheme is discriminatory.

5. Quotas

Members agree that it would be a sensible simplification to merge the A and B production quotas following the abolition of producer levies as the distinction would no longer be necessary. Members note that this decision would benefit surplus sugar producing nations such as France and Germany as their B quotas incorporate large surpluses.

FDF members note that a number of UK industries would benefit from the expansion of the isoglucose quotas. Starch manufacturers are adamant that if production quotas are to remain, they would need a significant expansion of the isoglucose quotas in order to help offset any institutional price cut for sweeteners and to realise economies of scale. Sugar users would like to be able to source isoglucose according to domestic demand and not be constrained by quotas. Members note that the current restrictions prevent users from taking advantage of the functionalities of isoglucose. British Sugar believes that production quotas on isoglucose will need to remain so long as there are quota restrictions on sugar.

FDF members accept that the notion of introducing quota tradeability is politically contentious. We also appreciate that the Restructuring Fund and the provision to allow sugar processors to convert 1 million tonnes of C sugar into quota by purchase, will help the European industry to restructure. Despite this, we still believe that quota tradeability should be introduced to enable the industry to restructure more effectively.

Members acknowledge that by excluding sugar for the chemical, pharmaceutical and bioethanol industries from production quotas, the EU will create an outlet for non-quota sugar. Starch manufacturers are concerned however that this provision will put their products at a competitive disadvantage compared with sugar when selling into these industries.

6. Restructuring Scheme

FDF members agree that efforts to assist in the restructuring of the EU sugar industry will be necessary, both for political and economic reasons. However, members are divided in their views on the proposed voluntary restructuring scheme. Sugar processors are in favour of it. Sugar users are concerned that it may inadvertently encourage some of the EU’s more efficient processors to exit the market. They are also worried that it may lead to further industry consolidation and a reduction of competition on the domestic market. Users also object to the fact that they will effectively have to fund this restructuring scheme.

Starch manufacturers believe they are effectively being asked to pay a higher digressive restructuring levy than sugar processors in the Commission proposal. In their view, sugar processors will be able to recoup 58% of the levy from beet growers as a result of price cuts, whereas starch manufacturers will have to fund 100% of the levy themselves. They believe that both groups should pay the same effective levy rate taking into account each sector’s raw material costs.
7. **Farmer Compensation**

FDF members acknowledge that politically, farmers will need to be compensated for the income loss arising from Sugar Regime reform. We accept the proposal to compensate for 60% of the price cut, to pay this compensation via the Single Farm Payment and for the payment to be fully decoupled, so long as every member state is subject to the same conditions.

We agree that sugar beet should qualify for set-aside payments when it is grown as a non-food crop and we believe that this production should also be eligible for the energy crop aid for €45/hectare.

8. **Out of Quota Production**

British Sugar would not support the introduction of a “super levy” to dissuade producers of sugar from exceeding their production quotas. Sugar beet yields are highly variable and unlike dairy farmers, sugar beet growers are not so easily able to control their yields in order to avoid paying this levy. Tate and Lyle, sugar users and starch manufacturers would support the introduction of a “super levy” given the lack of export flexibility that will be available in the future.

Sugar processors and users support the proposal to enable processors to purchase part of an additional one million tonnes of quota for a one-off payment. However, sugar processors believe the proposed price of this quota—€730/t—is unreasonably high. Starch manufacturers are astonished that the Commission has proposed to increase the EU sugar quota by one million tonnes, whereas the proposed increases in the isoglucose quotas are minimal.

9. **Market Management**

British Sugar believes that it would be sensible to start the sugar marketing year on 1 October, instead of 1 July, as this would complement the annual sugar beet production cycle. Sugar users and starch manufacturers could accept this suggestion so long as they would not be required to pay the restructuring levy or a higher price for sugar for an additional three months during the implementation of a new sugar regime. Furthermore, sugar and isoglucose producers only wish to pay the levy on actual production and not production quotas. Tate and Lyle questions how this would relate to the refiners’ supply, the terms of the Sugar Protocol and a potential phasing-in of the arrangements for the cane suppliers which have different crop and delivery cycles.

10. **Trade with Third Countries**

Sugar users welcome the Commission’s proposal to open-up the EU market to additional supplies from third countries if and when the EU sugar price becomes substantially inflated. They believe this mechanism will be essential to ensure the EU market price for sugar falls and that the UK food industry does not become uncompetitive on the world market. Sugar processors are concerned about this proposal however, given the perceived lack of an effective institutional mechanism to put a floor to the EU market and the risk of an over-supply emerging.

11. ** Preferential Sugar Imports**

FDF members note that the Commission communication is sugar beet focused and that the EU’s development commitments to sugar producers in African, Caribbean and Pacific (ACP) countries and Least Developed Countries’ (LDC) have not been well thought through.

We note the proposal to provide ACP countries with €40 million of restructuring aid in 2006. We are not in a position to know whether this will be sufficient and we do not believe that the Impact Assessment is robust enough for the Commission to know either. Expeditious resolution of the debate over the Financial Perspectives is desirable so that ACP producers will have the necessary information about the range of accompanying measures and the finances likely to be available to them in the short- to medium-term.

FDF members are pleased to see that the EU’s import commitments to the ACP countries and India, the world’s LDCs and the western Balkans will continue. We are also content for the Traditional Supply Needs mechanism to remain. It will be essential that there is equitable treatment of existing and potential cane refiners.

12. **Provision for Exports**

FDF members accept that the EU must abide by its World Trade Organisation (WTO) export subsidy reduction commitments and that the EU is committed to eliminating all export subsidies by a date to be agreed as part of the ongoing WTO talks. We are opposed to the idea that the Commission may impose linear production and import quota cuts from 2010 if the EU is in danger of breaching its WTO commitments. The UK does not contribute to the EU sugar surplus, and as such, should not be forced to pay for it through the introduction of a pro-rata system for allocating quota cuts, ie the decategorisation key
should remain. Starch manufacturers do not believe that any quota cuts should apply to them as they do not claim export refunds. Sugar users note than when quotas have been cut in previous reviews of the Sugar Regime, market prices have gone up and this is of concern to them.

FDF members welcome the Commission’s commitment to retain Non-Annex One (NA1) export refunds whilst EU sugar prices remain above “world price” levels. At the moment, NA1 refunds are calculated by adding up the refunds available on a processed product’s raw materials. Under the current system, if export refunds are eliminated on sugar, the NA1 refunds on the sugar content of manufactured products for export will also be zero. Therefore, the Commission will need to devise an alternative method for calculating NA1 export refund rates in the future. The Commission will need to ensure that the new calculation is WTO legal, bearing in mind that Part V, Article 11.1 of the WTO Agreement on Agriculture states—“In no case may the per-unit subsidy paid on an incorporated (processed) agricultural primary product exceed the per-unit export subsidy that would be payable on exports of the primary product.”

Sugar processors agree that production refunds for sugar used in the chemical and pharmaceutical industries should remain. Starch manufacturers on the other hand, believe that these refunds should be eliminated as they give sugar processors a competitive advantage.

13. Impact of Reform

FDF members are not at this stage in a position to critique the Commission’s updated Impact Assessment of the proposed reforms. Our initial impression however, is that it is superficial and lacking in economic and intellectual rigor. In many places it is apparent that the figures have been based on implementation of the Commission’s July 2004 White Paper, and not the current proposal. A robust impact assessment will be necessary to help inform the decision-making process. Therefore, we recommend that the Commission should devote the necessary resources to ensure that a robust document is available.

14. Competition

Any new sugar regime should encourage and enable greater competition than that which currently exists in the EU market. Sugar users do not believe that the current proposal will ensure this.

Food and Drink Federation
August 2005

Memorandum submitted by Professor Sir John Marsh

The Extent of the Reform

1. The Commission’s proposal, to reform the sugar regime (COM (2005) 263 final), represents the most significant change in the CAP regime for sugar since its inception in the 1960s. It is a significant step forward in lowering internal EU prices from around three times the level in the world market to twice the level. This will limit production, hopefully to a point at which the Community exports no more than is permitted under the rules of WTO, a reduction of some four million tonnes in total exports. Lower internal prices imply less revenue for those sugar exporters who benefit from the Sugar Protocol and the Commission has initiated Action Plans that will help the countries affected to adjust.

2. Although this is a substantial reform the sugar regime continues to distort resource use within the Community. Within the EU sugar beet is still grown within a market protected from outside competition by a substantial tariff and from internal competition by quotas and limits placed on the production of isoglucose. It is expected that lower prices and a restructuring of sugar beet processing will result in a reduction or even the end of production in the highest cost areas of the Union. There will also be downward pressure on internal prices as a result of the Everything But Arms (EBA) commitment, which, from 2009, will allow access to the EU market for sugar from the Least Developed Countries.

3. Defra estimates that the reform will result in a gain of £2,400 million in the economic welfare of the EU of which £340 million will occur in the UK. Although such calculations must incorporate assumptions about uncertain economic variables, for example the level of world prices and exchange rates, the picture that emerges is clear. The reform will have a strongly positive economic effect. However, the same analysis shows that even after the reform there will be a continuing loss of welfare of some £4,400 million for the EU as a whole.2

4. The Commission has made important progress in bringing the policy into line with reforms in other agricultural sectors since June 2003. These seek to provide support for people and rural public goods but not for products. The provision of a decoupled payment covering 60% of the price cut and paid

on the same basis as the existing Single Farm Payment fits into this pattern. However, the continued regulation of volume by quota means that production of sugar beet will still be determined by political convenience rather than by market forces.

5. The Commission’s analysis of the impact of reform on farmers\(^3\) gives the impression that at the projected post reform price much of the production currently undertaken within the EU would be unprofitable. It foresees a price of €25 per tonne. At this level only producers in France, Germany, Denmark and the Benelux countries would break even. For the UK although the break-even price at €40/t is well above the point forecast the Commission believes that adjustments could allow for some continued production.

There are reasons to believe that prices to farmers may not fall as low as €25 per tonne\(^4\). The Commission bases its analysis on the assumption that the compensatory payment is fully decoupled, so sugar beet becomes unattractive as soon as its profit margin falls below that of the next most profitable enterprise. If the payment remains tied, in whole or in part to continued sugar beet production, farmers may still find it sensible to produce the crop, even though the return from the market is less than profitable. Whilst this may argue in favour of more farmers remaining in sugar than the Commission’s calculations suggest it is clear that the reform as proposed would result in a radical change in sugar beet production within the Community.

6. Given the scale of distortion entrenched within the existing sugar regime it is understandable that the Commission should pursue a gradual approach to reform. This may make political sense but it is economic nonsense. The “reformed” policy ties the Union to a continued waste of resources, it will still trap resources in lower value uses in sugar production within the EU and the Sugar Protocol countries and it will leave the EU budget with a commitment to pay farmers a substantial annual amount because in the past (in 2000-02) they grew sugar beet.

7. Sugar beet has been grown in Europe to ensure security of supply. There is no reason to believe this still provides a justification for support. World sugar markets are abundantly supplied at current prices. Sugar can be produced in a diversity of locations. There are a variety of alternative sweeteners that can substitute for sugar. Sugar can be stored so that markets can discount uncertainties of weather or transport that might temporarily reduce supplies.

8. Because sugar has been a protected crop a substantial amount of resources, human and capital has been drawn into its production. Any change in policy will have social repercussions as some jobs disappear and the value of capital embodied in specialist equipment declines. The scale of this should not be exaggerated. Sugar beet is grown by 230,000 farmers in the EU 15 (3% of all farmers) and of these only 8,000 are specialist growers. It is a crop grown mainly by larger farmers, who have more opportunities to diversify their activities. It accounts for a small part of the total agricultural area of the EU (1.4%) and, at the peak of its activity during the processing campaign, engages a small some 31,862 staff in sugar factories\(^5\). The social repercussions of changing the policy are not large nor do they provide a justification for its continuation but they may form a rational basis for compensation.

9. The Commission recognises that reforming the sugar regime will cause problems for those ACP countries that currently benefit from high prices for the quantity of sugar they are allowed to sell to the EU. This obstacle to reform arises as a result of distortions within the economies of these countries induced by the existing regime. Resources in these countries are located in non-competitive uses because this has been necessary to access benefits from the relationship with the EU. Much greater benefit would accrue to these countries from an equivalent income transfer provided as aid and used to support their overall economic development. The Commission’s Action Plans point in this direction but the “reformed” sugar regime will still require ACP countries to keep more resources in sugar production than could be justified in an open market. It should be changed to encourage resource uses that will make the maximum contribution to the economic welfare of these countries.

10. The case for taking reform further is compelling. Complete liberalisation would provide a saving of some €4.4 billion per annum for consumers and taxpayers. It would encourage economic growth within the Union, shifting resources from less to more productive uses. It would facilitate world trade offering new opportunities for economic growth to some tropical countries. It would release EU budget funds to address issues of greater relevance to the growth and coherence of the Community.

11. Whilst the Commission’s gradual approach may be acceptable in political terms, it should be seen as a starting point rather than the achievement of reform. As a first step quota restrictions should be withdrawn on timescale not exceeding five years and the tariff level brought to a point at which it is no higher than the level of protection accorded to other products.

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\(^4\) The Defra analysis cited above suggests a price to farmers might be nearer €30 per tonne.

\(^5\) The European Sugar Sector—Its importance and future EC Commission June 2005.
Implications for UK Agriculture

12. In the UK sugar beet accounts for about 1.5% of agricultural land and for some 2% of gross agricultural output. Production is concentrated in the east of England, with 40% located in Norfolk. At a national level adjustments in sugar beet production are of relatively small economic or environmental significance although their regional impact may merit special consideration.

13. Under the proposed reform less sugar will be produced in the UK. At the price level, €25/t, anticipated by the Commission very few UK farms could produce sugar beet profitably. There are grounds for thinking that this may be too pessimistic. The UK will remain a deficit region for sugar within the EU and so may experience prices above those of surplus regions. Sugar beet factories, which in the UK are relatively efficient, may accept lower margins in order to offer higher prices to growers to ensure supplies. Under the pressure of competition improvements on the farm and lower prices for some inputs may push production costs on the farm downwards. The closure of higher cost sugar factories and growers will reduce the average national cost level enabling a smaller but still viable sugar sector to survive. Defra’s estimate is that production may fall by between 20% and 50%.

14. The social impact of the reform concerns mainly employees of the sugar beet processors, less than 1,000 people. Farmers’ interests are protected by the compensatory payments. The impact on the much larger group of people for which there is some indirect or induced employment, around 8,000, will be diluted by the opportunities for these businesses to use their resources in other activities. Hauliers for example will find a decline in part of their business but overall, provided the economy as a whole is prosperous, this is likely to be taken up by new business. In regions where processing factories close there may be a need to assist restructuring but this needs to be seen as adjustment within the regional economy not an issue for agricultural policy.

15. The scale of sugar beet farming means that changes in the level of output will only have a noticeable impact on land use in selected areas. There land is likely to be absorbed in other arable enterprises, in most cases cereal production. This may lead to some loss of variety in the appearance of the countryside and a decline in wildlife diversity since sugar beet as a broad leaf spring crop allows for habitat niches that cereals do not. If this is regarded as a problem the solution lies not so much in a crop-by-crop approach but in an overall strategy for shaping the agricultural environment funded on its own merits, not defined by the levels of support once given to crop production.

Compensation for EU Producers

16. The proposal to compensate growers for the lower price under the reformed policy is described as “partial”. In practice it might be described as “over the top”. For many farmers costs of production will be greater than 76% of the initial price. For them a 60% rate of compensation for a 40% price cut will result in higher incomes than at present.

17. There appear to be two reasons why compensation might be paid. The first is that the incomes of the recipients are too low and society should grant them an annual payment to top it up. There is no evidence to justify that conclusion. The second is that as a result of past policy farmers have been induced into a pattern of investment that has now become unprofitable as a result of the changed regime. This assumes that farmers unlike other businessmen cannot be expected to take policy risk considerations into account in planning their investment. If the argument is accepted then complete compensation would place the farmer in a position to make the set of decisions that would have been open to him had he not been misled by policy. This would provide, at the most, a basis for a defined payment not for a continuing annual pension based on an area of sugar beet grown in the past.

18. The most elegant and budget efficient means of doing this would be by a tradable bond. This would establish the amount of compensation due and pay it as an annual sum for a defined period to current owner of the bond. By making the bond tradable the farmer is placed in a position at which he can determine his own investment strategy, whether to invest in the farm or some other enterprise or simply to hold the bond as a source of income. The effect for the EU budget is a continued annual payment for an agreed period of years. Because the payment is wholly decoupled the impact on resource allocation and economic welfare is strongly positive.

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6 Economic, social and environmental consequences of EU sugar reform—University of Cambridge and the Royal Agricultural College study for Defra September 2004.
7 Defra op cit.
8 See Defra op cit.
Changes to Quota Arrangements

19. There remains a profound illogicality in the reform proposals. Quotas exist to prevent competition, to allocate the right to produce or market to favoured recipients and to ensure that they receive higher prices than would exist in a free market. The philosophy of the 2003 reforms, to which this reform is intended to shift the sugar regime, is that production must be determined by markets and the public good goals of agricultural policy must be secured by other measures. In that situation prices regulate output and quota restrictions are redundant.

20. The logical outcome of a reform that embodied these principles would be the end of quotas and the opening up of the market to all who believe they can compete. This appears to have been regarded as politically unacceptable. There remains a fear that the level of production may still exceed the volume that WTO allows the Community to sell at subsidised prices on the world market and an unwillingness to accept the lower prices that might result. As a result quotas are retained.

21. The proposals do make a welcome simplification of the quota regime by the merging of A, B and C quota allowance. There is, too, an increase in the volume of quota and this will be allocated to growers for a once and for all payment. This should lead to some improvement in overall efficiency within the EU sugar sector, since the lowest cost farmers will be best placed to bid for additional quota.

22. The system remains profoundly unsatisfactory. It discriminates against the producers of isoglucose, it constrains consumer choice and it underpins a price level unjustified by underlying market conditions. The solution is to abandon quota and allow competitive forces to determine the amount and location of sugar production within the EU.

Impact on UK-based Sugar Beet Processors and Cane Refiners and the Long-term Consequences for their Industries

23. Sugar beet processors will face a reduction in throughput. The extent of this will depend on how low prices fall and what incentives exist for farmers to shift to other crops. Processors may find a new market should government choose to support the use of sugar as a source of biofuel. However, such a decision will have to take into account competition from other sources of biofuels.

24. The Commission’s proposal includes a suggestion that beet processors might spread their costs by refining cane sugar. Such a development is likely to be taken up only by factories close to the point of entry of raw sugar. Even there it may be unattractive. Cane sugar refining appears to enjoy substantial economies of scale. Within the UK there already exists excess capacity to process cane sugar. Beet processors entering this market would need to justify additional investment in this context.

25. Given this economic background the proposals for restructuring grants contained within the Commission’s proposals may well encourage British Sugar, the only beet processing business in the UK, to close one or more of its factories.

26. Sugar refiners seem to be particularly penalised. They are to lose their refining margin. This must reduce their profitability. Access to raw material is still impeded by the EU tariff regime. Although from 2009 there may be unrestricted supplies from EBA countries, this is not necessarily the lowest cost sugar available on world markets. If tariff levels on white sugar fall they will be exposed to greater competition from imports. As a large, efficient technologically sophisticated business, the UK sugar refining business may be able to exploit improved methods and market segmentation to retain market share, but the reformed policy itself makes its position more not less difficult. In contrast a full reform of the policy would open up opportunities for refining cane sugar within the EU and provide a basis for the expansion of an international business.

Professor Sir John Marsh

August 2005

Memorandum submitted by Confédération Internationale des Betteraviers Européens
(International Confederation of European Beet Growers)

Due to the great diversity of our members, it is very difficult for CIBE to give evidence (on behalf of ALL its members) on the key points mentioned in your press notice.

Please find herewith CIBE’s position on the following key points:
— the extent and timescale of the proposed price reductions:
   the price reductions go too far and come too quickly;
— the extent to which the proposed reductions in price will be transmitted to the consumer:
   CIBE does not believe that the proposed reductions will be transmitted to the final consumer—
   the price reductions will be captured by the second transformation industry (manufacturers of
   sweets, soft drinks and other sugar containing products) and by the distributors (supermarket
   chains);
— the proposed arrangements for compensating EU producers:
   CIBE considers it vital that the compensations be attributed to the beet growers rather than be
   distributed to ALL agricultural producers—the beet growers are in fact the ones who will suffer
   from the reduction in earnings from sugar beet;
— the changes to the quota arrangements:
   on this key point, the interests of our members diverge.

The only other thing CIBE can do is to communicate to you our recent press release on the matter (not
printed\(^9\)).

Confédération Internationale des Betteraviers Européens

\textit{August 2005}

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\textbf{Memorandum submitted by Graham Day}

The compensation package through the SFP needs targeting specifically to the sugar beet farmers rather
than at all farmers, otherwise the price cuts are so severe so quickly (two years) that I can’t imagine that
there will be a sugar beet industry left in 2–3 years time.

The overall package will not benefit anyone as the price “new countries” will receive makes it very difficult
for them to start a sugar producing industry.

It certainly will not help consumers in this country as the price reduction on the end product will be of
very little significance and the consumer will not notice any difference.

From a farming perspective for the general appearance of the countryside and for wildlife it will be a step
backwards.

Graham Day

\textit{September 2005}

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\textbf{Memorandum submitted by British Beet Research Organisation}

This response relates to European Commission document, COM (2005) 263 final, presented on 22 June
2005. It addresses specifically the bullet points listed in Press Notice number 3 published by the EFRA
Committee on 26 July 2005.

\textbf{EXECUTIVE SUMMARY}

The British Beet Research Organisation is concerned that adoption of the proposed reforms of the EU
Sugar Regime will undermine not only its research capability and, consequentially, the technical progress
and competitiveness of the UK beet sugar industry, but also the environmental enhancement that could be
derived from optimising the area of sugar beet grown in arable rotations. Disbenefits could be minimised if
the following points are taken into consideration:

— The cut in the price paid to the grower for sugar beet must be sufficient to remove inefficient
  production but not so severe as to undermine the competitiveness of the UK. As the volume of
  BBRO research is directly related to the tonnage of processed beet, the BBRO accepts that
  associated reductions in area sown and tonnage processed will retard its output of improved,
  environmentally sound and safe techniques.
— The possibility of using out-of-quota sugar for biofuel, and the attendant qualification of such beet
  for set-aside and energy-crop aid is welcomed as a step towards the combined production of beet
  for sugar and beet for energy in common arable rotations.
— It is vital for the competitiveness of the UK that decoupling arrangements should offer the best
  possible advantage to sugar beet growers and should be the same in all member states.
— The opportunity to buy back 83,000 tonnes of quota is welcomed but further transferability of
  quota between member states according to ability to produce the crop and domestic requirements
  would be fairer, and more sustainable within the Union in the long term.

\(^9\) \url{http://www.sugartraders.co.uk/22jun05cibe.doc}
1. **The BBRO**

The British Beet Research Organisation (BBRO) is a private not-for-profit company owned equally by the British Sugar (the processor of home-grown sugar beet) and by growers through the agency of the National Farmers Union. It is financed by a levy of 12 pence charged to the grower for each adjusted tonne of sugar beet processed, matched by an equal amount from British Sugar. To the present, this levy has raised, on average, £2.16 million per annum from an average national crop yield of about 9 million tonnes, to be spent at research centres on a balanced programme of strategic research, nearer-market technical development and technology transfer. Over 96% of the levy income is spent on research and technology transfer projects. Implementation of the Commission’s proposals will force production down to a level nearer quota, reducing probable income to about £1.8 million. The industry is self-sufficient in its research programme, there being no public expenditure on specific sugar beet research programmes and only negligible expenditure on non-crop-specific research relevant to sugar beet. Through the BBRO levy, the UK has become one of the most efficient producers of sugar and sugar beet in the EU. A recent DEFRA report confirmed the value of sugar beet as a break crop and highlighted the success of the research programme in reducing all inputs to the crop, with consequent benefits for biodiversity and wild life. Sugar beet is acknowledged also to have the best environmental credentials of any UK arable crop, having reduced its pesticide and fertiliser inputs by 60% and 30% respectively within the last 25 years\(^{10}\) and being advantageous to wild species, particularly farmland birds\(^{11}\). The BBRO research programme is the foundation of technological progress for sugar beet production in the UK. We are concerned therefore that reforms of the EU sugar regime should not be allowed to reduce our growers’ profitability to a point that forces significant reduction in the area sown to sugar beet, with consequent negation of the economic and environmental advantages derived from our research programme and diminution of the volume of research upon which future advantage depends.

2. **Extent and Timescale of Price Reductions**

In spite of the fact that price reductions, through their effects on beet area, will affect the BBRO research capability, the BBRO believes that it is essential for future stability across the EU after regime reform, that the price reduction is sufficient to stimulate the most inefficient beet production to cease, enabling transfer of production to the more efficient. The proposed reduction in the minimum price for sugar beet, from 43.63 to 25.05 EUR/t by 2007–08 represents a 43% cut in the price paid to the grower. The proposed production charge and possible “flexibility clause” could result in an even greater cut; possibly even too great. Growers have, hitherto, sown some excess area as insurance against a poor season and the associated risk of failure to achieve quota. This is, of course, inefficient and, as returns diminish, growers will be unable to incur the expense of sowing and managing the excess area. However, the BBRO believes that a large proportion of UK growers can remain competitive at a reduced price and, consequently, is funding research to assist our growers in determining more accurately the area each needs to sow. The BBRO accepts that, in this scenario, and as an objective of the reformed Sugar Regime, the tonnage of processed beet is likely to fall nearer to that required to produce sugar quota but the BBRO makes it known that the negative impact on its research output, most of which is environmentally as well as economically desirable, could be significant. For this reason we welcome the opportunity for the UK to acquire additional quota as allowed under article 8 of the draft regulation (see paragraph 6), or if home-grown sugar is used for approved non-food purposes (see paragraph 4).

3. **Extent to Which the Proposed Reductions in Price will be Transmitted to the Consumer**

BBRO has no remit for such market analysis but experience suggests that it is unlikely that the ultimate consumer will find the prices of sugar-containing foods any cheaper on the supermarket shelves.

4. **Implications for UK Agriculture, Particularly Land Use**

The expansion of winter cereals and oilseeds since the 1970s has been a major cause of the decline in populations of some birds, mammals and arable plant species. Sugar beet is a valuable spring break from winter cropping: over-wintering sugar beet or beet aftermaths provide food and cover for many animals over the winter, affecting 800.00 hectares of arable rotations. These environmental advantages will diminish in proportion to the shrinkage in area of sugar beet associated with regime reforms. Consequently, we applaud the Commission’s proposal to allow above-quota sugar to be used for the production of biofuels, and we welcome the attendant qualification of sugar beet for set aside payments and energy crop aid when grown for this purpose. This will encourage the combination of sugar production and energy cropping, resulting in some retention of the crop in arable rotations and contributing to Defra policies to encourage the expansion of spring crops for the benefit of landscapes and biodiversity.

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5. **Proposed Arrangements for Compensating EU Producers**

The BBRO welcomes the proposal to compensate sugar beet growers to soften, at least for a period, the harsh effects of loss of crop-income. We also approve the decoupling of compensation from production, making it subject to cross-compliance conditions within the Single Payment Scheme; any form of coupling will hinder the objective to achieve a more efficient and competitive EU industry by encouraging less efficient growers to remain in production. However, we would urge HMG to devise a scheme based on a historical reference period in which compensation is paid exclusively to sugar beet growers. At the moment, the proposals allow undesirable flexibility in the implementation of decoupled arrangements: some member states will award compensation specifically to beet growers; other member states will award the compensation regionally to all farmers. Those growers subject to the latter arrangement (and experience from the last round of CAP reform suggests that HMG would prefer this for UK growers) will be at a disadvantage relative to growers in member states employing the former. Whatever the arrangements finally prove to be, it is vital for competitiveness that they are the same for all member states.

6. **Changes to the Quota Arrangements**

Though easily capable of supplying its domestic markets from home production, the UK has long maintained only 50% self-sufficiency in sugar production through its historic relationship with ACP countries. Consequently, the UK does not contribute to the EU surplus and, whilst continuing to accept a fair share of obligation to the ACP and LD Countries, ought to receive the benefit of some redistribution of quota. The opportunity for the UK to buy back 83,000 tonnes of sugar quota is welcomed as a step towards redistribution but should go further. It is disappointing that the Commission is not seriously addressing the current imbalance of production capability and consumption between the member states. The UK has climatic advantages giving a long growing season and enabling protracted harvest campaigns which could give us an edge over some competitors, if we were allowed to capitalise on those advantages. There is no doubt that it is more efficient throughout the Union to have sugar produced in those regions where it does best, and a regime in which Member States, through quotas, are barred from self-sufficiency wherever that is possible, cannot be sustainable.

7. **Potential Impact on UK-based Sugar Beet Processors, Cane Refiners and Their Industries**

The long-term consequences of the proposed Sugar Regime on UK sugar beet processors and refiners are best analysed by those companies. As far as the BBRO is concerned, without the non-food uses and redistribution of quota mentioned above, the impact is likely to be a continued reduction in research capability and a consequent erosion of the competitiveness of our beet sugar industry, along with its environmental benefits, relative to other Member States.

British Beet Research Organisation

*September 2005*

Memorandum submitted by B J Gooderham

**Sugar Reform—Who Benefits from Price Reductions?**

1. **UK Growers**—No
   
   Already at a £10 per tonne disadvantage with European growers. Only 50% of sugar produced in UK. Remainder as imports.

2. **ACP Countries**—No
   
   Even with a favourable price for the exports into Europe ACP cane growers are struggling.

3. **EBA Countries**—No
   
   If the ACP Countries struggle to make a living what hope is there for the EBA Countries? Think about it!

4. **Food Industry Manufacturers**—No
   
   Any reduction in their costs will immediately be seized upon by the supermarkets who will demand their share.
5. The Consumer—No
As the sugar cost in products is very small the likely effect is that there will be no change in the product end price.

6. The Environment—No
Sugar beet have considerable environment benefits. The RSPB acknowledges this. Soil structure particularly on lighter lands gains from the crop. Also worldwide increases in some countries will lead to further rainforest destruction.

7. The Taxpayer—No
The present system does not get any governmental or Treasury support whatsoever.

8. The Supermarkets—Yes
By squeezing their suppliers and failing to pass on any reductions the supermarkets will gain enormously and increase their stranglehold on agriculture.

SO SHOULD THE SYSTEM CHANGE?

YES

Exports are the problem and should be totally banned from the EU.
Surely it would be best to grant access to the EBA countries similar to ACP and ban exports of sugar from the EU and turn surpluses into ethanol. Problem solved. Everyone a winner. With no dumping world prices would rise benefiting Brazilian and Australian farmers.
At a time when oil prices are at an all time high and may even go higher it seems an act of supreme folly to abandon an industry that could do much to provide valuable fuel. The technology and know how that has made the UK one of the leaders in sugar beet production would be wasted. The research and development efforts that are going into the crop are continuing and will form a base for efficient fuel production.
Remember that the UK also suffers from the Euro-Pound relationship with our growers receiving at least £10 per tonne less.
Countries like Brazil, which have already had one drastic revaluation can do it again. So currency rates have to be brought into the equation.
So what is the point in ruining an industry which has given so many farmers in the UK and the ACP countries a lifetime of stability over so many years?

BJ Gooderham
September 2005

Memorandum submitted by Delitzsch UK

1. We are pleased that a new enquiry has been announced following the publication of the European Commission proposals on 22 June 2005.

2. As a major supplier of sugar beet seed in UK, it is our belief that if the proposals are implemented in their current form, many sugar beet growers could not economically grow the crop, resulting in industry rationalisation with job losses in all sectors, including our own business.

TIMESCALE

3. The industry’s drive for efficiency has meant high levels of investment in new technology. The two-year timescale for implementation does not take into account the effect this will have financially. A much longer transition period is essential, whatever level of cuts are finally agreed, allowing a return on this investment.

CONSUMER BENEFIT

4. The effect on the consumer is likely to follow the pattern of events between 1996 and 2000. During this time, due to Green £ exchange rates, the value of sugar beet was reduced by around 25%. As consumers, it was noted that this reduction was never reflected in the price of goods containing sugar. To the contrary, the cost of confectionery continued to rise. The benefit of any reduction in price will be increased profitability for the food manufacturers. The proposals should be binding upon the manufacturers of foodstuffs to reduce prices to the consumer.
IMPLICATIONS FOR AGRICULTURE

5. The proposals will have more than one implication for agriculture. As mentioned earlier, many growers will not be able to economically grow the crop resulting in significant changes to farming enterprises. Sugar beet is for many growers the only crop on the farm which makes any profit.

6. Without sugar beet, the farm labour force would be reduced, as farms would have to grow more combinable crops. The opportunity for employment in remote farming locations is low and this would further affect the viability of the rural economy.

7. Combinable crops rely, in part, on their yields from following a break crop, such as sugar beet. Without this aspect in a rotation, yields and returns will diminish further, again reducing the viability of farming enterprises.

8. At present there are few large-scale alternative crops to sugar beet. Those that do offer similar benefits are often still being developed for UK conditions or are only required in limited volumes.

9. The use of sugar beet as feedstock for the production of Bio Ethanol would provide the rotational benefits but it is still in the development stage in this country and requires government legislation to create the necessary end market for the product. Having missed its renewable energy target for 2005 and with a 5% target set for 2010 this is an opportunity which, could not only help meet that agenda but also support a beleaguered agriculture, reduce greenhouse gas emissions and assist in rural sustainability. This should be in addition to a viable beet sugar industry to make the most efficient use of the existing industry infrastructure.

10. Growing nothing is only sustainable where soil conditions permit and would be a further cost to the enterprise.

11. Any reduction in the area of sugar beet will also reduce the ability of arable farms to provide the habitat necessary for wildlife that depend on bare land during the winter and early spring.

COMPENSATION

12. Firstly, to ensure fair competition across the EU, the compensation policy must be dictated by the Commission, with all countries applying the same rules.

13. Secondly, because of the magnitude of the proposed cuts, any compensation must be paid directly to sugar beet growers.

QUOTA ARRANGEMENTS

14. The retention of a quota system is biased against the UK as it only produces as much sugar as it needs.

15. The objective must be to legislate for the most efficient production base in EU. If quotas are to remain, the cross-national border transfer of quota must be permitted to operate in conjunction with the Voluntary Restructuring Scheme.

IMPACT ON UK PROCESSORS

16. The current proposals would inevitably result in further rationalisation for the beet sugar processor with the inevitable negative impact on income and profitability. This would reduce the base for the most efficient production of sugar and the efficient production of new products such as bio fuels and feed stocks for other industries in the future.

17. The proposals mitigate more against UK than many countries. If we were not a member of the EU we would be judged as a model country by WTO through not exporting quota sugar and through the arrangement permitting the import of half our sugar consumption from the African and Caribbean countries.

18. While fully supporting the need for some reform, the aim must be to ensure the long term survival of a sustainable UK industry to provide security of supply, a reduction in food miles, stability in rural areas and the protection of the environment.

Delitzsch UK

September 2005
Executive Summary

WWF welcomes the opportunity to contribute to this Environment, Food and Rural Affairs committee inquiry. WWF have long called for changes in EU sugar policies to end export dumping, to improve market access for poor countries and to improve environmental management. Whilst WWF welcomes the commitment to reform the sugar regime, we have serious concerns about the European Commission’s 22 June proposals. Europe has a unique opportunity to create a more just and sustainable global sugar market but without changes to the current proposals, that chance could be missed.

The distortion of the EU sugar regime on world markets harms people and nature across the world. European over-production damages the environment in the EU as well as depressing the world price for sugar. Along with restricted access to the EU for developing countries and unfair competition from dumped sugar, this results in lower earnings for sugar exports. In developing countries this translates into lower environmental and social standards.

There must be genuine cuts in European production and an end to all the hidden, in-direct and complex subsidies, refunds and grants that will continue to allow the European industry to compete unfairly with developing countries and cause environmental damage in Europe. Europe needs to import at least twice as much sugar from developing countries as it does now. The EU must extend meaningful help to both traditional “sugar protocol” importers, and non-sugar protocol least developed countries (LDCs).

Specific recommendations

— There must be a review of these reforms in 2010.
— Total EU production must be cut to c 12 million tonnes a year.
— Quota cuts should be based on environmental criteria.
— No additional quota should be created.
— All market management tools should be reviewed to ensure there is no cross-subsidising of production, use or export.
— The Single Farm Payment should not over-compensate beet farmers; it should be modulated and must include tougher environmental standards.
— Budget savings must be re-directed to the development budget aimed at helping developing countries adjust to reform.
— There should be no public support for bioethanol in the EU.
— Europe should open its markets fully to sugar imports from LDCs now rather than only in 2009.
— The EU should seek to implement the price cut over a longer time period to allow LDCs to adjust.
— Europe should offer significantly more assistance to the 18 ACP countries that are exporting to the EU now, recommending a target of €500 million a year.
— Europe should offer adjustment help to non-Sugar Protocol LDCs.

1. Introduction

1.1 WWF have long called for changes in EU sugar policies to end export dumping, to improve market access for poor countries and to improve environmental management. Whilst WWF welcomes the commitment to reform the EU sugar regime, we have serious concerns about the European Commission’s 22 June proposals. Europe has a unique opportunity to create a more just and sustainable global sugar market but without changes to the current proposals, that chance could be missed.

1.2 Firstly, the EU must guarantee an end to the negative impacts the sugar regime has on the world by reducing its production significantly and ending the dumping of European sugar. Secondly, Europe needs to increase the import of sugar from developing countries and invest substantial resources in improving the environmental, social and economic sustainability of the sugar sector in those countries. Unfortunately there is no guarantee that the first of these will happen and there is little evidence that the EU is willing to do the second.

1.3 The EU produces some 20 million tonnes of sugar a year yet consumes only 16 million tonnes. It imports 2 million tonnes and regularly exports 5–6 million tonnes. The EU sugar market is heavily distorted and as a consequence distorts world markets. This distortion harms people and nature across the world. As an international environmental organisation WWF is concerned about the negative impacts of policies such as the EU sugar regime on sustainability globally.
1.4 Europe over-produces sugar, stifles demand for imports and directly and indirectly subsidises the dumping of sugar on world markets at below the true costs of production. As a result developing countries, in particular, face depressed world prices, restrictions on their access to the EU market and unfair competition in third countries.

1.5 In Europe the environmental consequences of over-production result from the high level of soil erosion, pesticide and water use associated with beet cultivation particularly when grown in inappropriate regions. The nature of the sugar regime, the high guaranteed price and the allocation of quotas across the EU, means that sugar beet is unsustainably irrigated in a number of Mediterranean river-basins.

1.6 Outside of Europe, in addition to the negative impact caused by the distortion of world sugar trade on earnings, poverty alleviation and labour conditions in some developing countries, there are also significant environmental consequences. Where sugar is grown irresponsibly valuable habitat is lost, water is overused, soil eroded and degraded and land, air and water are polluted by pesticides, fertilisers from sugar fields as well as by smoke and waste products from sugar mills. In some regions inefficient irrigation of sugar means that unnecessarily large amounts of water are used. In others, water becomes polluted with silt or chemicals.

1.7 Better management practices are widely available. These practices address many of the environmental impacts, so that sugar can be grown in ways that are good for nature. If production is well managed, cane can help prevent soil erosion and wildlife can co-exist in well-managed plantations. Unfortunately, due to the depressed nature of the world market and unfair competition from subsidised sugar exports, the sugar industry in many countries is unable to invest in these practices.

2. **Reforms Must End European Over-production, Environmental Damage and Dumping**

2.1 WWF welcomes the reforms as a first step towards ending the over-production and dumping of European sugar. However we need assurances that the voluntary and market led measures designed to cut production will work. There is some question as to whether they will when efforts to restructure are combined with very generous compensation, expanded quota and new payments for renewables (bioethanol) from beet.

2.2 Particular concerns are that:

   - European farmers will be compensated for 60% of the price cut in the form of a Single Farm Payments—a total of €1.54 billion a year. There is some indication that this will over-compensate producers for price falls which in reality may be lower than predicted.

   - In addition private storage and withdrawal subsidies will still be paid in cases of low market prices.

   - Production refunds will continue to be paid to high sugar using industries, such as confectionery and pharmaceuticals.

   - 1.3 million tonnes of extra sugar and sweetener quota is being created and over-production is being further legitimised by continuing to ‘turn a blind eye’ to sugar for chemical and alcohol uses.

   - Sugar beet will qualify for set aside payments and for a €45 per hectare payment for renewables.

   - A restructuring aid worth over €4.2 billion will be made available to encourage the industry to give up quota.

2.3 All this amounts to a very generous offer of compensation and continuing support to the European sugar industry which has already benefited massively from 40 years of market management. It is likely to continue to encourage over-production in the European Union which must not be allowed to occur. These reforms will need to be monitored carefully to make sure that EU over-production and dumping ends and whether the voluntary restructuring alone is sufficient.

2.4 Continued over-production will perpetuate the harm done to wildlife in Europe.

2.5 Unsustainable irrigation: Excessive water usage for irrigation is the single most important environmental impact from sugar beet in Europe, particularly in Mediterranean regions. However, as climate changes, this is becoming an issue increasingly in northern Europe as well. The high guaranteed price for European sugar has meant that irrigation of beet, even in highly unsustainable situations, has been a profitable option for producers. The allocation of sugar production quotas across the EU has meant that irrigation persists where it would not otherwise.

2.6 WWF would like to see an end to unsustainable irrigation of beet and any other crop within the EU.

2.7 WWF wants environmental criteria, rather than market decisions alone, to play a part in decisions to give up quota production as is the case in the reform of the olive oil regime. The EU Water Framework Directive is introducing a system of river basin planning and this should be used to determine whether irrigation within a particular river is environmentally damaging or not.

2.8 Whilst environmental cross-compliance (environmental standards which the farmer has to meet before they get their payment) will be introduced to the single farm payment for beet producers, it does not currently include any obligations linked to sustainable water use or to the Water Framework Directive. Therefore, it is unlikely to address issues like irrigation where sugar production continues or, where
decisions are made to shift into alternative crops. Although a larger question than sugar reform alone WWF wants to see the Water Framework Directive incorporated into the cross-compliance system within the CAP.

2.9 Tackling unsustainable irrigation also requires special investments. WWF would like to see restructuring aid targeted at areas where sugar has environmental problems—for example in southern Member States.

2.10 Possible wildlife benefits from beet: In some cases sugar beet offers environmental benefits to wildlife, as is the case for a number of UK farms. Where this is the case, WWF believes that these should be delivered through cross-compliance requiring crop rotations beneficial to wildlife and/or targeted agri-environmental schemes rather than through a system of price support.

2.11 Bioethanol: WWF is not convinced of the desirability of investing in the production of bioethanol for renewable transport fuel from beet in the EU. The carbon gains from beet derived alcohol is not as favourable as the use of agricultural or forestry biomass for direct heat and power production, or even bioethanol derived from sugar cane. The option to include sugar beet in the existing limited budget and area of crops attracting EU support for renewables poses the danger of swamping the scheme and distorting the future growth of the sector due to the existing capacity to grow sugar beet. In addition, as with any intensively produced crop, WWF is concerned at the biodiversity, pollution and habitat impacts of large scale beet production whether for sugar or alcohol.

2.12 Reform recommendations within the EU

— Duration of the sugar regime without review until 2014–15:
A review of the regime at the mid-term will be needed to ensure that it is having the desired effect of reducing production, environmental damage and exports.

— Cutting production:
The overall level of production needs to be matched more closely to EU consumption minus current and desirable imports of some 4–5 million tonnes a year, ie at something like 12 million tonnes. The current proposals will not achieve this. European producers must not be able to produce over quota.

— The need for compulsory quota reductions:
WWF is disappointed that there is no managed quota cut proposed now. There must be a strong commitment from the EU to the use of compulsory cuts if the voluntary restructuring scheme fails to operate as expected.

WWF advocates the use of managed quota cuts specifically tied to environmental criteria such as the impacts of beet on freshwater to ensure a smaller and more environmentally rational level of production within the EU.

— The creation of additional sugar and sweetener quota:
WWF strongly disagrees with the creation of a further 1 million tonnes of sugar quota and 300,000 tonnes of isoglucose quota in order to maintain, what has been deemed by the WTO to be illegal, over-production in certain Member States.

— The retention of market management tools:
It is the whole package of market management tools within the sugar regime that, in sum, enables the European industry to dump sugar on the world market and reduces the potential demand for cane imports from developing countries. There must be a substantial reform which removes these indirect drivers of over-production which in turn lead to damage done to the rest of the world.

— The proposed Single Payment Scheme:
WWF accepts the principle of compensation for beet growers for the price cut. However we have a number of concerns that need to be addressed:

— Compensation should be of a similar level as currently received by other arable producers. There is no justification on public benefit grounds for beet growers to receive substantially more payments to meet cross-compliance standards than other farmers.

— Savings resulting from these reforms must be shifted to the development budget of the EU aimed at strengthening the contribution sugar makes to the environment and poverty alleviation in developing countries.

— Restructuring aid, within the EU, should be targeted at areas where beet has had severe environmental consequences—such as through unsustainable irrigation in southern Member States.

— As is the case with existing Single Farm Payments the sugar payments must be modulated to fund rural development measures under the CAP.
— Where wildlife benefits can be attributed to beet they should be delivered through the use of cross-compliance standards for things like crop rotation and the retention of winter cover and/or targeted agri-environment schemes aimed at creating valuable habitat and food for wildlife.

— The proposed renewables payments:

WWF does not support investment in the use of sugar beet for biofuels. The small existing area limit and support budget would be better spent on supporting the production of woody biomass for energy production.

3. REFORMS MUST OFFER HELP TO DEVELOPING COUNTRIES

3.1 Many of the world’s poorest countries have the potential to maintain or develop sustainable sugar industries, which could benefit the environment and help alleviate poverty. The impact of regime reform on developing countries is closely linked to internal changes within the EU, and cannot be considered separately.

3.2 The proposals from the European Commission singularly fail to address the need to ensure that sugar contributes to environmental improvement and poverty alleviation in developing countries. This must be addressed urgently.

3.3 The European Commission hopes the reforms will lead to a 4 million tonne drop in quota production and the end of C production and dumping, which will be necessary to comply with the recent WTO ruling. That could amount to a total reduction of 8 million tonnes, which is the amount which WWF estimates is needed to end dumping and accommodate increased ACP and LDC imports. However, effective production drops will depend on the success of the voluntary restructuring. That is, whether the signals to withdraw from production out-weigh the signals to over-produce and, if not, whether the European Commission stands by its commitment to use quota cuts in 2010. As outlined above the EU must do more to ensure that over-production, market protection against developing countries and sugar dumping end.

3.4 Beyond that minimum, any genuine pro-development reform must also result in increased sugar earnings in the poorest developing countries. Greater earnings in developing countries will help them raise environmental standards and contribute to alleviating poverty.

3.5 The greatest threat from these reforms remains the one posed by the lack of help being extended to developing countries to invest in the sustainability of their industries. Without adequate help least developed countries, in particular, will not be in a position to benefit from increased access to the European market. Help must be given to ensure that this demand can be met by sugar produced to high environmental standards in countries where it can significantly contribute to poverty alleviation.

3.6 Without such help the threat of unsustainable expansion in LDCs or in countries like Brazil, which is already geared up to export sugar, poses environmental threats which are not acceptable. These arguments should not be used to justify maintaining sugar production within the EU, but towards a better managed shift to greater imports of sustainably produced sugar from developing countries.

3.7 A more sustainable world market in sugar will only come after an end to the unfair competition posed by EU exports, plus improved access to the EU market and adequate development support.

3.8 Improved access: The EU should, in the medium term, be aiming at maintaining the level of imports from traditional suppliers and greatly expanding imports from LDCs to between 2–3 million tonnes a year. In reality however Europe will not fully open its borders to sugar from LDCs until 2009 (when the Everything But Arms agreement is to come into full force) and by then these countries will face a price 40% lower than their European counterparts have enjoyed since 1968.

3.9 WWF accepts that a price cut is inevitable and also that the cut proposed still offers an attractive price to a number of developing countries. The question is whether those LDCs are in a strong enough position to reap the benefits of the reforms. The EU should explore ways in which it can manage the transition over a longer time period than proposed. This will give developing countries a period after 2009 at an attractive price. This should in turn attract investments in the longer-term sustainability of their industries.

3.10 The EU must also offer assistance to non-Sugar Protocol LDCs to ensure that they are able to benefit from improved access to Europe after 2009.

3.11 Better help: Many developing countries will be negatively affected by EU sugar reforms and they must be provided with adequate and timely assistance to adjust.

3.12 However traditional ACP suppliers have been offered minimal compensation compared to EU farmers. They are being offered two years of slightly higher prices than their European counterparts to accept these reforms. In terms of adjustment assistance they are being offered only €40 million in 2006 (and an unspecified amount for the following seven years) for 18 countries—compared to the €1.54 billion per year earmarked for Europe’s sugar farmers and €4.2 billion restructuring fund for European sugar factories.
3.13 Reform recommendations

The EU must do more to ensure that developing countries are not only able to cope with these reforms, but to benefit from them. Given the very generous offers of compensation and restructuring aid to the European industry we believe that the EU is obliged to think as creatively and generously about how it can offer similar help to sugar protocol and least developed country sugar producers and exporters:

- Europe should open its markets fully to sugar imports from LDCs now rather than only in 2009.
- The EU should seek to implement the price cut over a longer time period to allow LDCs to adjust.
- Budget savings from the reform should be channelled into the development budget aimed at helping developing countries build sustainable sugar sectors. One approach would be for part of the restructuring levy on the industry to be directed to development.
- Europe should offer significantly more assistance to the 18 ACP countries that are exporting to the EU now, recommending a target of €500 million a year.
- Europe must offer significant levels of support to the LDCs to raise the environmental and social standards in their industries.

WWF-UK
September 2005

Memorandum submitted by The British Starch Industry Association (BSIA)

INTRODUCTION

1. The British Starch Industry Association represents the interests of UK producers of cereal starch and starch products. There is a strong relationship between the starch sweeteners and sugar markets and the proposal for the reform of the sugar regime will have a major impact on the industry.

The purpose of this paper is to:

(a) provide a background and context to the production of starch and starch sweeteners in the UK;
(b) set out the industry’s concerns at the proposals for reforming the regime; and
(c) how the industry would like to see the proposals amended.

UK INDUSTRY BACKGROUND

2. The BSIA is a member of the European Cereal Starch Industry Association (AAC), and shares its mission:

“... to assure a reliable and economic supply of safe starch-based ingredients developed from renewable, natural and processed with environmental care for food, health, industrial and feed applications.”

The British starch industry extracts starch from cereal grains (700,000 tonnes of UK wheat and 750,000 tonnes of maize, principally from France) and processes it in to a great many products, from native starches, to physically modified starches, liquid and solid sugars (principally in the form of glucose syrups and isoglucose) for food and non-food uses. The bulk of the industry’s production is sweeteners, some 70%.

These starch products are used as ingredients and functional supplements in food, non-food and feed applications.

It also generates valuable co-products which are sold into animal feed (eg wheat proteins, corn gluten feed) and food (eg wheat gluten).

MEMBERSHIP

3. The current membership of the BSIA is:

Cerestar—A Division of Cargill
National Starch & Chemical
Roquette UK Ltd
Tate & Lyle Food and Industrial Ingredients

Last year there was one other, albeit relatively small, glucose syrup producer ie Grangestone Grain. The company ceased production following a review of its operations against the background of the proposed price effect of the reform of the sugar regime when €450/tonne was mooted at as the target price level.
UK INDUSTRY CONTEXT

4. UK production of starch and starch products is in the region of 800,000 tonnes from processing 1,450,000 tonnes of cereals. This compares with cereal starch production in the EU of about 7 million tonnes, from processing some 13 million tonnes of cereals, principally wheat and maize.

5. The UK has a small isoglucose quota (see attached annex), of 27,000 tonnes (5.3% of the overall quota for the EU). This is a disproportionately small quota compared to the size of the UK cereal starch industry. The whole quota is held by one producer ie Tate & Lyle Food and Industrial Ingredients. The total quota for isoglucose in the EU (25) is 507,000 tonnes.

6. As the figures show the UK starch industry is relatively small compared to its counterparts in Europe, essentially serving a domestic market. This in itself makes the UK starch industry more vulnerable to the impact of the changes to the Sugar regime.

INDUSTRY CONCERNS

7. In its communication of July 2004, the Commission stated:
   “Owing to the relationship between the isoglucose and sugar markets, the proposed price reduction will also impact on the EU isoglucose sector revenue. Therefore the isoglucose sector will need to be in a position to profit from economies of scale, in order to have a long-term prospect of economic viability.”

8. This was stated at the time when the sugar price being considered was €450/tonne as opposed to the level of €385/tonne, as set out in the proposals. At these price levels the industry comes under much greater pressure. Not just for isoglucose but starch sweeteners in general. This was recognised by the Commission in its impact study of 2003, when it commented:
   “... the price of sugar in the community governs beet production capacity, preferential import opportunities and competition with alternative sweeteners . . . however, below €450 per tonne, that [isoglucose] production would collapse and the industry’s starch production activities would be affected.”

9. The sugar price is the benchmark for most sweeteners and any decrease in price will affect the price of isoglucose and of most other starch sweeteners. As sweeteners represent 70% of our production, the whole industry is impacted. The reductions in the sugar price will mean that the starch industry will inevitably have to reduce its production costs. The ability to build economies of scale is denied to it by the limitation on the increase in isoglucose quota. The granting of a substantial additional volume of isoglucose, if not the total removal of the isoglucose quota, is essential to ensure the long term competitiveness of the starch industry in the EU and UK.

10. The industry will also be negatively impacted by expanding the outlets of sugar for industrial applications such as chemical and pharmaceutical (an additional outlet evaluated by the Commission at 500,000 tonnes), through an out-of-quota production mechanism.

11. As most of the starch industry’s raw materials are derived from the cereal growers in the EU (wheat from the UK), the proposals will have a negative impact on the farming community as well.

ISSUES CONCERNING ISOGLUCOSE

12. Some specific issues regarding the proposals concerning isoglucose, identified by the BSIA, are as follows:
   (a) It seems illogical to maintain the quota on isoglucose after the restructuring period of four years. If quotas were to be removed the isoglucose industry would produce some 3 million/4 million tonnes of isoglucose to meet demand. However, to reach these levels would take well over 10 years, if not more, to achieve due to the necessary capital investment that would need to be made.
   (b) Some UK starch industry producers would actively consider substantial investment in isoglucose production should the quota be increased or removed. The UK would benefit from this additional inward investment.
   (c) There would seem to be a disproportionate risk to the UK starch industry when compared to the continental European starch industry, due to scale effect. This could lead to any restructuring of the industry in Europe to have a greater effect on UK based manufacturing assets, which in turn could lead to UK consumers becoming dependant on imported products.
   (d) The British Starch Industry Association believes that R&D activity is associated with a successful developing business and without an industrial presence such research and development is likely to take place outside the UK.
   (e) Exchange rates make a significant difference to the competitive advantages/disadvantages that national industries can exploit. Currently the £ Sterling/€ Euro relationship further disadvantages UK manufacture and leads to dependence on imported goods.
(f) The UK Government was concerned about the existence of a competitive UK based starch industry when conducting its enquiry into the merger of two starch companies in the UK. The BSIA presumes that the potential reduction in the number of local manufactures of starch and starch products, as a result of the reform proposals, is still of concern to the UK Government.

(g) The UK starch industry recognises that its national political lobby is much less effective than that of the UK sugar industry, albeit that the size of the starch industry is not greatly different to the sugar industry. (The starch industry directly employs some 900 people, with a possible further 3,000 people employed in ancillary industries and in the farming community.) The starch industry believes that this is clearly to its own detriment, and will probably adversely affect the outcome of the sugar regime reform as seen from a starch perspective. The concern of the starch industry would be that the merits of the economic arguments which are positive for the starch industry are overshadowed by the sugar industry’s lobby.

(h) The starch industry is the gateway to many other green technologies and industries. For example the starch process has many synergies with Bioethanol production, an industry which will lead to greenhouse gas production reductions. The starch industry already uses modern efficient energy systems (Combined Heat and Power) and could lead the way to the development of others, Biogas, Biomass for electricity generation. With the prospect of the reduction in local starch production the opportunity to exploit these energy and environmental advances will clearly be restricted and in addition there are clearly environmental penalties from importing the products from overseas.

**The Solution—What the Starch Industry Needs to Remain Viable**

13. At sugar prices as low as €385/tonne the UK cereal starch industry needs:

   (a) An increase in isoglucose production quota. At the sugar price envisaged, with the continuing constraint on isoglucose production (even considering the additional quota allocation of 300,000 tonnes), it will not be possible to compete with sugar and a number of isoglucose production facilities would be at risk. The industry wants to see the full removal of quotas after restructuring. During the restructuring period there should be no reduction in the proposed increase in the isoglucose production quota by 300,000 tonnes/year, over four years (ie 1.2 million tonnes), to be added to the current isoglucose volume of 507,000 tons. This increase will bring total isoglucose production to 1.9 million tonnes (ie 10% of the total sugars market) at the end of the restructuring period. This level of increase in the isoglucose production quota would minimise the impact of the sugar reform on the starch industry, in particular by safeguarding the current outlets of cereals sweeteners in blends.

   (b) There should be no flat rate cut applied to isoglucose after the restructuring period.

14. In making the above comments the aim of the UK starch industry is to:

   (a) Remain competitive after the reform of the sugar regime and remain one of the most innovative contributors in the food industry.

   (b) Give customers a real choice between sweeteners: the natural sweeteners and wide choice of low/no calorie innovative sweeteners are complementary to sugar and contribute to the offer of better balanced and diversified products to the end-consumers.

   (c) Support UK agriculture by increasing its cereal outlets. The starch industry secures farmers an outlet for different crops as wheat and maize and supplies the European market with a wider range of products.

   (d) Provide an alternative source of revenue in areas where sugar beet production will decrease or be abandoned. Isoglucose can be produced in all Member States during the whole year and can therefore also be an alternative solution for sugar beet growers who will have to reduce their production. The additional 1.2 million tonnes of isoglucose requested is equivalent to approximately 240,000 ha whilst 1.2 million tonnes of sugar equates to approximately 100,000 hectares of sugar beet.

   (e) Be the major factor in the development of green chemistry in the UK and EU and provide a plentiful supply of biodegradable ingredients because starch products are a valuable source of raw materials for the development of green chemistry in Europe.

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**Annex**

**ISOGLUCOSE**

Isoglucose is not a chemical sweetener but is a natural sweetener made out of wheat or maize. It is a liquid sweetener very similar to invert sugar and is used in the food industry for decades.

Isoglucose is the only cereal sweetener that is restricted by a production quota in the framework of the sugar regime since 1969. This quota represents only approximately 3% of the sugar market, which means 500,000 tonnes in EU-25.
Its production was put under quota because in the late 70s, it was produced from imported US maize. The starch industry now uses almost exclusively European cereals.

In the Commission impact study of 2003, it was mentioned that,

“In the EU, isoglucose has the potential to win a maximum of 30 to 40% of total market share i.e. a total of 5 million tonnes of isoglucose in an EU of 15 members (6 million for an EU of 25).”

We estimate isoglucose production will increase but up to more or less 3–4 million tonnes over 10–15 years. Apart from the US, where the sugar price is high and maize prices are very low (resulting in 50% of isoglucose share of total sweeteners), in other countries, the share of isoglucose is mostly around 20%.

The isoglucose market will never develop to such levels in the EU, since the market structure, the demand and the pattern of consumption are fundamentally different.

Furthermore, isoglucose is a technical product requiring consumer tests, plant approval procedures from the customers, etc. Hence, this market cannot be developed overnight.

Starting from the current insignificant level of approximately 3% of the sugar market, there is room for increasing isoglucose production in the EU market.

British Starch Industry Association

September 2005

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Memorandum submitted by Broom’s Barn Research Station

EXECUTIVE SUMMARY

Broom’s Barn Research Station is the National Centre for Sugar Beet Research and a Division of Rothamsted Research, a major BBSRC sponsored Institute. Our remit and expertise permit us only to address question 3—environmental consequences of the EU Commission proposals for reform of the EU sugar regime implications for UK agriculture and land use.

Sugar beet is an annual crop, sown in spring and harvested in autumn and winter. It must be grown in rotation with other crops (maximum frequency of beet cropping is every third year). In the UK only about 5% of beet crops are irrigated.

1. ENVIRONMENT AND LANDSCAPE DIVERSITY IN THE UK

Sugar beet is a spring crop, so makes an important contribution to landscape and habitat diversity in the UK. There is consensus that the doubling of the proportion of winter cropping in the landscape during 1970–90 was a major factor in the decline of many bird, small mammal and wild arable plant (weed) species. Our own work shows that loss of the sugar beet crop from the UK would further increase the dominance of winter cropping and exacerbate this situation12; as does the submission of English Nature to the previous Defra enquiry13.

Current policy objectives require an increase in spring cropping. For this to occur, the spring crop must be economically sustainable. Appropriately reformed but still economically viable, the sugar beet crop could play an important role in meeting societal objectives for the countryside.

2. USE OF FRESH WATER RESOURCES

Sugar beet, grown in England, uses approximately one third as much freshwater per tonne of sugar produced14 as sugar cane grown in the tropics and sub tropics15.

The reasons for this are very fundamental biology. Photosynthetic efficiency is only slightly temperature dependent, whereas crop water consumption is highly temperature dependent. Water use efficiency is therefore favoured by low evaporative demand environments.

Shortage of freshwater globally is recognised as one of the greatest challenges facing mankind in the 21st century. Thus from a global freshwater perspective, it makes no sense to produce sugar from irrigated sugar cane in the sub-tropics, particularly for export to temperate countries, when it can be produced with greater water use efficiency in western and central Europe, including the UK.

3. PESTICIDE USE

Problems arising from pesticide use are generally over estimated in sugar beet and under estimated in sugar cane. For example, recent research\(^{16}\) shows that no water quality problems arise in the UK from sugar beet production, and that toxicity risk to non-target fauna from the use of pesticides in beet is similar to that of wheat.

Dr John Pidgeon  
Director  
Broom's Barn Research Station  
September 2005

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Memorandum submitted by The Centre for Holistic Studies, India, UK Network

EXECUTIVE SUMMARY

XS1 We believe that the emphasis of the review should be on sustainability rather than financial gain.

XS2 The most important principles in determining the future regime are those of bioregionalism and trade subsidiarity, i.e., sugar production should respect ecological realities and sugar should be sourced from as close to the final consumer as reasonably possible.

XS3 Ultimately, this means that UK demand for sugar should be met from UK production of sugar beet.

XS4 The unequal distribution of power in the world trade system, with corporations and certain nations dominating and the poorer nations being dominated, needs to be addressed if we are to achieve a truly free market.

XS5 We support the group of 10 EU countries calling for a self-sufficiency regime for sugar production and consumption.

XS6 We believe that reform of the sugar regime will make more land available in the UK for the production of crops to meet our needs for textiles, fuel and construction materials. We see this as a healthy development towards a sustainable, self-sufficient and bioregional economy.

XS7 This development is also consistent with DEFRA’s vision of a sustainable future for food and farming in the UK.

1. INTRODUCTION

1.1 The discussion about the reform of the EU system of subsidies for the sugar industry is being focused on the issue of money, so that there is a conflict between UK and EU producers, producers from poorer countries, and the corporate interests who trade in and use sugar in their products as to who should gain most financially from the new market structure that is being established. We believe this is the wrong focus and that emphasis should instead be placed, as in all economic debates, on sustainability.

1.2 The principle informing the submission we offer to the Committee is that of bioregionalism, an ecologically grounded approach to the economy. Bioregionalism has at its heart two of the central principles of green economics: living in balance with the planet and respecting its natural cycles, particularly the carbon cycle.\(^ {17}\) Bioregionalism means living a rooted life, being aware of where your resources come from and where your wastes go.

1.3 Relating the concept of bioregionalism to the global market for sugar brings us to the idea of trade subsidiarity, which suggests that the distance between production and consumption should be as short as reasonably possible, depending on the type of good and the size of the potential market.

1.4 Trade subsidiarity as a principle is based on the vital importance of two facets of economic life that globalisation has ignored:

- International trade generates vast and unnecessary quantities of carbon dioxide that are causing climate change.
- Human economic and social security require a subsistence perspective and the use of self-reliance as a guiding principle.

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\(^{17}\) For more on the developing concept of bioregionalism see the work of the Bioregional Group: www.bioregional.com or published in Desai, P and Riddlestone, S (2002), *Bioregional Solution for Living on One Planet*, Schumacher Briefing no. 8 (Totnes: Green Books).
1.5 This brings us to the conclusion that sugar for the UK market should be produced and sourced from within the UK. This is a long-term aim and will clearly have important consequences for poorer countries who have based their development policies on the prevailing free-market orthodoxy and are extremely vulnerable to any change. We will address these global issues in a separate submission to the second stage of the Committee’s inquiry.

2. **Who is Served by the Subsidy Regime?**

2.1 The argument from the EU is about the importance of creating a free market for sugar, as for other products, but we would question whether the global market is really free when certain corporations and national governments have so much power to control the legislative regime, the terms of trade, and the currencies in which trade takes place, and others have none.

2.2 EU sugar production of more than 17 million tonnes is larger than demand within the EU by between 2 and 2.5 million tonnes. The excess production is exported at artificially low prices because of the subsidy regime which undercuts non-subsidised production from poorer countries.18

2.3 Producers in the richer countries are protected both by the subsidy regime and by their political representatives’ domination of the WTO and the global financial system. Producers in the poorer countries have no such protection and thus would be best advised not to engage in global trade in sugar or other commodities when the rules of the game are set against them from the start. They would be better advised to focus on domestic subsistence agriculture.

2.4 The debate about reform of the EU sugar regime is being dominated by the voices of two powerful interest groups: on the one hand the corporations who trade in sugar, especially the food manufacturers, and on the other the producers’ groups, in the case of the UK British Sugar. The challenge to the existing regime proves that corporate interests are more powerful than farming interests and has nothing to do with improving the situation for producers in the world’s poor countries or consumers of sugar in raw form or in food products.

3. **A Positive, Self-Sufficient Response from EU States**

3.1 Ten EU countries have challenged the direction of reform of the EU sugar regime. Spain, Finland, Greece, Ireland, Italy, Portugal, Hungary, Latvia, Slovenia and Lithuania are adopting a self-sufficiency perspective similar to that suggested in our introductory remarks.

3.2 This group of nations want to continue to produce sugar for their own needs, adopting a localizing approach. They suggest that the focus of reform should be on member states that are not sugar exporters instead of on the imposition of cuts which would end production in some countries.19

3.3 CHS supports the argument for a self-sufficiency approach to the production of sugar by EU countries for their own need within their own national territories.

4. **Use of UK Farming Land from a Bioregional Perspective**

4.1 Under the regime proposed by the EU it has been suggested that production of sugar will end in many EU states. Only the UK, France, Belgium, Germany and Sweden have the production and processing capacity to cope with the proposed cut of 40% in support prices.20

4.2 The effect on farmers in the UK is likely to be severe: in Lancashire all 28 producers of sugar beet have already abandoned its production.21

4.3 Sugar beet is a particularly useful crop since it is most suited to fill a break in the rotation cycle of other dominant crops such as wheat, barley and peas. Even without subsidy the gross margin generated by sugar production will be larger than that for oilseed rape.22

4.4 From a sustainability perspective the land of the UK is underused and its use is distorted because of a history of poor farming practice and politically oriented subsidies. Over the long term policies should be designed to shift production towards crops used within the UK, increasing food security and moving towards self-sufficiency in fuel, textiles, and construction materials.

4.5 In the context of the UK this is likely to mean and an increase in the area of land dedicated to the production of biofuels, including coppice; the growing of textile crops such as flax and hemp; and the production of crops that can generate building materials.

4.6 The movement towards self-sufficiency of fuel, textile, and building crops, as well as food, should be underpinned by the introduction of a carbon tax, which would increase the cost of importing these items.

22 According to Carl Atkins, Director of Rural Research at Bidwells, quoted in the Farmers’ Guardian, 4 March 2005.
5. A Bioregional Approach to Meet DEFRA’s Vision

5.1 We quote to the Committee an excerpt from DEFRA’s Strategy for Sustainable Farming and Food:

“Our vision of the future is of a world in which climate change and environmental degradation are recognised and addressed by all nations and where low carbon emissions and efficient use of environmental resources are at the heart of our whole way of life: where, here in the UK, rural communities are diverse, economically and environmentally viable, and socially inclusive with high quality public services and real opportunities for all. A country where the food, fishing and farming industries working closely together and with Government are not dependent on output-related subsidies to produce safe, nutritious food which contributes positively to consumer choice and the health of the whole nation. A place where the land is managed in such a way as to recognise its many functions, from production through to recreation: where we seek to promote biodiversity on land and in our seas, and where the promotion of animal welfare and protection against animal disease is at the core of the way in which we farm and live. The pursuit of sustainable development, environmental, economic and social is achieving this vision.”

5.2 We suggest that our submission is entirely consistent with this vision which has a number of strands:

— The concern with sustainability is addressed by our emphasis on trade subsidiarity and reducing global trade in products that can be sourced from within the UK.
— By placing bioregionalism at the heart of our submission we address DEFRA’s concern that rural communities should be economically and environmentally viable.
— Our response to the desire to reduce subsidies is the suggestion of a carbon tax, which would automatically increase the price of imported sugar and hence make domestic production more competitive.

5.3 In conclusion, we would suggest to the Committee that DEFRA’s vision cannot be addressed without challenging the nature of the globalised economy, which is far from a free market, but rather one dominated by corporate interests. If the power of industrial bodies and the producers’ lobby is to be challenged, so must the power of global corporations.

Molly Scott Cato
Centre for Holistic Studies, India, UK Network
September 2005

Memorandum submitted by Agricultural Industries Confederation

EXECUTIVE SUMMARY

1. Mechanisms used to reform the sugar regime should tackle, as a priority, EU countries which are currently producing over quota. Whilst the UK is considered to be one of the most efficient beet producing member states, the quota system ensures that the UK imports approximately 50% of its sugar requirements from ACP countries under existing agreements. As a contrast, France and Germany produce significantly above quota. Whilst later on in this submission we argue for no compulsory quota reductions during the restructuring period, we do believe the imbalance of consumption and production which currently exists needs to be addressed as soon as possible.

2. It is also worth noting that the proposed reform will do little in terms of improving the ability of ACP and other developing countries to increase their imports to the EU. By contrast we would expect low cost volume producers, notably Brazil, to further increase their proportion of imports into the EU. The environmental and social implications of this are addressed in a later point.

3. The following demonstrates the importance of the sugar beet crop to AIC members:

— Variable cost figures from the latest Farm Management Pocket book by John Nix estimate a £115/hectare spend on fertiliser, £135/hectare spend on agrochemicals for the average sugar beet crop. Multiplying this across the 170,000 hectares of sugar beet grown in England gives a total figure for inputs (excluding seed) of £42.5 million pounds.
— Members currently supply approximately 90% of the UK animal feed, agrochemical and fertiliser market.
— Members in the fertiliser and agrochemical sectors therefore represent over £38 million of this spend. Some AIC members represent a proportionately larger amount of this spend due to the regional variance in sugar beet cropping.
THE EXTENT AND TIMESCALE OF THE PROPOSED PRICE REDUCTIONS

4. AIC believes that the proposed price cuts, to €385 (£258) per tonne for sugar and €25 (£17) per tonne for beet, are too severe and would result in many growers deciding to drop sugar beet from their crop rotation. Defra’s Regulatory Impact Assessment also reports that these proposed levels are too low to allow production to continue.

5. Table 1 demonstrates that sugar beet at £17/t would produce a negative contribution when variable and fixed costs are deducted from the output. This is for yields ranging from 40t/hectare to 60t/hectare (Nix average UK yield 55t/hectare). Sugar beet only compares favourably with other arable crops, in terms of contribution, when the price is £25/t, or more.

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Table 1

SUGAR BEET CONTRIBUTION

(For this exercise variable costs are estimated at £397/hectare and fixed costs are averaged at £650/hectare based on average UK figures from the Farm Management Pocketbook 2005.)

6. AIC questions the value and effectiveness of a reference price and private storage mechanism. Private Storage Schemes have never proved themselves to be successful in the EU and there is little evidence to suggest this would be the case in the sugar industry. We would argue that the intervention system should be retained through the transitional period although its value could be adjusted to ensure it operates as a safety net and a true market of last resort.

7. We accept the principle of price reduction and the role it can play in driving industry re-structuring with the intention of bringing European supply/demand for sugar into balance. Balancing of supply and demand however needs to be just that and price levels need to be sufficient to allow sugar beet to be grown profitably—the earlier table highlights this point sufficiently clearly.

THE IMPLICATIONS FOR UK AGRICULTURE

8. AIC is concerned that efficient UK sugar beet producers will be unduly penalised by an imbalanced reform. These producers are often the most environmentally aware, invest in a high level of technical advice and services from our members and are skilled in resource management. We believe that the environmental impact of any significant change to sugar production needs to be considered both from a UK perspective and from the position of those third countries who would be expanding their sugar exports, principally from sugar cane.
9. Brazil is cited as one example of a third country which would be looked to for increased sugar imports. Brazil, as a country, is making significant steps forward in establishing itself as one of the foremost agricultural exporters. We can see however that its drive on soya production is already having negative environmental impacts through the establishment of new agricultural land at the expense of rainforest—with the obvious impact this has for the climate as well as biodiversity. Similar concerns are expressed on the increased use of virgin cerrado for an expanded sugar production enterprise, particularly when one recognises the nutrient status of this type of soil and therefore the nutrient input required to generate a viable crop.

10. Worker welfare and safety in another important issue which both the UK and the EU need to be taking into account when establishing policies. With concern that many less developed countries also stand to lose out under the current proposals—a factor recognised by most participants and commentators—we have to question the social and environmental credentials of the EU Commission’s proposals.

11. By contrast, we believe that sugar beet production in the EU, and particularly UK, offers sound environmental benefits which fit naturally into the wider environmental strategy which the mid term review has pushed forward. A spring, row crop such as sugar beet also provides benefits to bird populations. RSPB report that 50% of the global population of pink-footed geese over winter in North West Norfolk and the Broads, feeding on left-over sugar beet tops. Sugar beet also provides valuable nesting and feeding sites for indicator species such as stone curlew, lapwing and sky lark.

12. Sugar beet serves as a break crop in the rotation and as such is a useful tool for the management of weeds and soil fertility. The loss of this crop, due to economic reasons, would lead to a reduction in overall farm profitability as the area of first wheat grown after a break crop would decline. This in turn would lead to an over reliance on some agrochemicals used to control grass weeds in cereals if the area of cereals expanded, which in turn could increase the likelihood of the development of resistance and an eventual reduction in their activity.

13. One additional area is the impact which a reduction in the beet area will have on the provision of digestible, fibre rich raw materials for the feed industry. The UK, through British Sugar factories, produces just over half a million tonnes of dried sugar beet co-products each year. Much of this is used by livestock farmers in the form of sugar beet shreds and pellets. Additionally there is an annual production of some 80,000 tonnes of moist co-products and some 10,000 tonnes of beet molasses.

14. Alternative fibre rich raw materials are available to a point, in the form of citrus pulp and soyahulls. There is however a great doubt as to whether quantities would be available to cover all of the lost sugar beet derived product. Neither of these products could also be taken as a direct replacement, nutritionally. Sugar beet co-products trade at a premium to these alternatives because of their nutritional superiority. A reduction in the availability of sugar beet co-products is most likely to be felt in the dairy sector with a reduction in the level of digestible fibre and subsequent impact on milk yields.

15. Finally we believe there is a significant contribution which sugar beet, as a crop, can make towards alternative energy production, eg bioethanol. Whilst other contributors will provide more detail in this area, we do note that the sugar industry is in an advanced state of readiness for production of bioethanol and given the increasing price pressure on conventional fuel we believe the government now has the opportunity to follow up its verbal support for non-food crop solutions with action by supporting the continuation of a UK sugar beet industry.

THE PROPOSED ARRANGEMENTS FOR COMPENSATING EU PRODUCERS

16. AIC has no specific comment to make on the proposed measures for direct income support. We do believe however that the payment system has to be consistently applied across the EU and entirely decoupled from any payment support regime. Member States should not be given the option to operate a national coupled scheme, even as a transitional measure.

A NEW SINGLE QUOTA

17. AIC supports the current proposals not to introduce compulsory quota reductions during the restructuring period. Restructuring of any degree will inevitably result in some growers exiting the crop and we believe it is sensible to assess the position of quotas once the effects of restructuring are seen. We believe however that from a longer term perspective the EU should take steps to remove quotas as part of a refocusing towards production linked to market signals—as we have seen for other crops under the Mid Term Review.

Agricultural Industries Confederation

September 2005
Memorandum submitted by The Royal Society for the Protection of Birds

EXECUTIVE SUMMARY

The RSPB believes that the reform of the sugar regime should support production that is genuinely environmentally sustainable and gives a fair deal to farmers in the UK, the EU and worldwide. For this to happen a proportion of the sugar regime’s annual budget of c.€1.5 billion should be linked to the delivery of tangible public goods. The RSPB recommends:

(i) Direct support to sugar producers should be equivalent to that received on comparable farmland.
(ii) Surplus funds from the sugar regime should be used to support and pay for the public benefits of growing sugar in the EU and to support sustainable development in those developing countries that are affected by the reform.
(iii) EU sugar production should be reduced where it is not sustainable.

INTRODUCTION

1. This evidence stands alone. Although we have made a previous submission to the EFRA Select Committee on the same topic in 2004, for ease of reference we have reiterated the key points in addition to addressing the Committee’s terms of reference and responding to the latest reform proposals.

2. The RSPB is disappointed that the Committee has made no explicit mention of the environment in their terms of reference for this inquiry, and has postponed addressing the international sphere. In Europe alone, there are 1.8 million hectares dedicated to sugar production; this is a considerable land-use that has a range of environmental impacts. Sugar is a global commodity and the EU is a key player in the world market for sugar, importing 2 million tonnes and exporting 5–6 million tonnes each year.

3. Decisions made over the EU sugar regime will therefore have a range of implications for farmers, rural communities, the environment and wildlife in the UK, the EU and worldwide. It is impossible to segregate these issues and they should be addressed holistically. We have therefore included a number of recommendations relating to the environmental issues and address the specific points in the terms of reference in the second section to this submission.

THE RSPB’S POSITION ON REFORM OF THE EU SUGAR REGIME

4. The RSPB advocates agriculture policies that support sustainable agriculture, characterised by profitable farming systems, abundant wildlife, and thriving rural communities. We believe reform of the Common Agricultural Policy (CAP) should result in a market-led agricultural industry that produces public goods, such as biodiversity, landscape, the historic environment, natural resources, and thriving rural communities, according to consumer demand and public policy. Public policy that supports sustainable agriculture is critical, as a liberalised market would expose Europe’s countryside to economic forces that do not recognise environmental values. This support should be achieved by a combination of regulation against pollution and degradation; by supporting and paying for public goods through the rural development regulation; and, by enabling and educating consumers to opt for goods produced to high environmental standards.

5. The RSPB believes that all payments to farmers through the CAP should be in return for public goods such as biodiversity, clean water, thriving rural communities and landscapes. The Commission’s reform proposal is a first step towards this model. However, it will mean that the sugar regime will continue to lag behind the rest of the CAP, and will fail to meet society’s expectations of a public support system that promotes sustainable agriculture by using public money to support the public benefits of farming. This is particularly unacceptable, given the current debate about future spending priorities in the EU.

6. The proposal allocates funds for direct support for sugar to each Member State, allowing them to choose how much they use to support sugar and how much goes into the general Single Farm Payment (SFP) pot to increase payments for all farmers. This means there will be a patchwork of different support levels across Europe, with the majority going into high payment rates in countries distributing their SFP according to historic production patterns. If the UK were to put all the money to sugar, those who grew sugar during the designated reference period would receive an average payment of £460/ha, or £10,000 each, compared to c.£220/ha on other lowland farmland. France has already indicated that it will put its entire allocation into a Single Farm Payment for those who grew sugar, which will result in a subsidy of approximately €700/ha.

7. This is neither desirable nor sustainable in the long-term. The SFP is attached only to the most basic of environmental requirements (cross-compliance), and it will be extremely hard to justify to the public why those who grew sugar in the past will receive such an inflated subsidy that is delivering minimal public good. Setting for such a scenario now, at a time when the CAP itself is under deep scrutiny, will only leave the system open to criticism and justify calls for further reform.

23 The RSPB submitted evidence to the 2004 EFRA inquiry into reform of the EU sugar regime, in which we detailed the environmental impacts of sugar production, both positive and negative, and how these should be provided for in the reform.
8. Furthermore, this proposal will result in a patchwork of different implementation scenarios across the EU. In one country, those eligible for the sugar SFP may receive twice what their equivalents are paid in a neighbouring country. This would be neither equitable nor in the spirit of a common European policy.

9. The RSPB therefore recommends direct support to sugar producers should be equivalent to that received on comparable farmland. This could be achieved at the European level by limiting the level to which the sugar SFP could exceed the normal payment to a maximum percentage of the average lowland SFP.

10. If this is not achieved at the European level, Defra should still implement the agreement in England so that the sugar SFP is equivalent to that on other lowland farmland. Furthermore, Member States should be encouraged to create national envelopes as defined in Article 69 in the CAP reform agreement to mitigate against any negative environmental and social impacts of the reform, and provide funds for supporting sustainable sugar production and alternative land-uses.

11. Capping the SFP for sugar would leave considerable funds remaining, which we suggest should be used for payments that have specific social and environmental purposes. The RSPB recommends that surplus funds from the sugar regime should be used to support and pay for the public benefits of growing sugar in the EU and to support sustainable development in developing countries.

12. There are considerable social and environmental needs within the sugar sector that are not met by the market and the proposed system of support, many of which may be heightened by the reform agreement. The funds freed by not allocating the entire sugar budget into a sugar SFP could be used to address these needs and to secure and sustain the environmental benefits of growing sugar beet where they exist. The reform provides an opportunity to link a proportion of payments to farmers to the public goods of growing sugar, including the environmental benefits, through appropriate agri-environment payments.

13. In the UK, sugar beet can be an important crop for some arable farmers, particularly economically when wheat prices are low. In those areas where sugar beet growing is considered uneconomic, other break crops will be grown (e.g. oilseed rape, field vegetables). One of the key reasons that sugar beet can have wildlife benefits is that it is spring-sown. Replacement break crops may not be spring sown, and it is therefore vital that Defra prioritises and encourages these farmers to apply and access agri-environment and rural development grants to support the sustainability of their farm businesses.

14. In the areas of Europe where the Sugar Regime has artificially enabled sugar production, the RSPB believes that provision should be made for producers to receive transitional diversification aid. These areas are principally in Southern Europe, where beet is grown under irrigation and is winter sown. Aid payments should encourage alternative, sustainable economic activities and land-uses.

15. The one-off payment for growers forced to leave the industry following the closure of a factory proposed by the Commission is unlikely to result in a switch to sustainable land-uses. Without any further support that is linked to sustainability, many producers in southern Europe will simply switch to maize production, which has already increased in Italy, for example, following the 2003 CAP reform. Maize also has an extremely high water demand and a very low wildlife value. If the correct support was made available, alternative land-uses could be encouraged, such as permanent grassland or fodder crops.

— In areas of Southern Europe, such as the Po Plains in Italy and the Castilla-León and Castilla-La Mancha areas in Spain, sugar beet is an unsuitable crop for local conditions. It requires irrigation and intensive chemical inputs, and is one of the crops responsible for directing water away from important wetlands, such as the Daimiel National Park.

— The availability of generous export subsidies to beet growers has left Europe producing considerably more sugar than it consumes, with 125–150% over-production the norm. Exporting the surplus has deflated the world price for sugar and has been at the expense of the world’s poor. The voluntary restructuring scheme will mean that the more efficient producers of sugar beet, which includes the UK, will be able to continue production, while the less efficient producers will be encouraged to leave the industry.

16. The RSPB welcomes this part of the proposal, as it will result in a reduction in growing sugar beet in arid areas where it is usually both economically inefficient and environmentally destructive, such as the Mediterranean countries. We hope that this mechanism will see production reduced in these areas so that the EU produces a maximum of 90% of the EU’s domestic sugar consumption. This would address the environmental and social problems caused by over-production and leave room for increased imports from the Least Developed Countries (LDC).

The Extent and Timescale of the Proposed Price Reductions

17. As we move towards a liberalised sugar market, the price for sugar and the minimum price for beet should be reduced progressively, so that economic shocks are avoided as environmental payments are phased in. The pace of the reduction should not be such that those who could be efficient and sustainable sugar producers, in the UK, the EU and in the ACPs and LDCs, are forced out of the industry.
The Implications for UK Agriculture, with Particular Regard to Possible Alternative Land Uses

18. It is expected that, as a result of the price cut and decoupling of support for sugar growers, some growers will leave the industry and there will be a reduction in the area under sugar in the UK. Sugar will be replaced by other break crops such as oilseed rape and field vegetables. Other organisations are better qualified to comment on the quantity and distribution of land area that is likely to remain in sugar production, but the RSPB would like to comment on what this means for the agricultural environment and wildlife to ensure this is not lost in the reform debate.

19. The RSPB expects the reform to have a negative environmental impact proportionate to the decrease in land area under sugar beet in terms of:
   - Losing nesting habitats for ground-nesting birds, such as lapwing, skylark and stone-curlew;
   - Losing broadleaved weeds from the arable landscape. These weeds are important for farmland birds as they provide sources of food; they have more invertebrates associated with them and they tend to produce seeds more readily used by birds, in comparison with grass weeds.

20. There will also be a positive environmental impact as a result of less water abstraction, depending on what land-use replaces beet production. Beet crops require more water than other arable crops, but a similar amount to field vegetables. Much of the South and East of England has been classified by the Environment Agency\textsuperscript{24} as being under an unsustainable and unacceptable abstraction regime with no additional surface and ground water available.

21. The RSPB does not believe that the potential negative impacts of reform are reason to dilute the reform agreement. Instead, action should be taken to ensure that they are mitigated against by introducing a national envelope and providing appropriate prescriptions under Environmental Stewardship.

22. National envelopes are provided for under Article 69 of the CAP reform agreement; they allow Member States to retain up to 10% of the decoupled payment ceilings to be used for “specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products”. They can be employed to address the environmental and social impacts of the CAP, and their main purpose is to mitigate the environmental impacts likely to arise as a result of decoupling support. The RSPB is recommending that the UK uses a national envelope to provide funding for those who grew sugar during a reference period, in addition to the normal SFP and to ensure the environmental benefits of producing sugar are not lost.

23. A reduction in the land area under sugar in Norfolk could have a detrimental impact on pink-footed geese populations by removing their winter food source. The RSPB believes that it is imperative that this internationally important population is maintained, and that this should be done through a pink-footed geese special option within Higher Level Stewardship. The proposed details of this scheme have been submitted to Defra.

The Proposed Arrangements for Compensating EU Producers

24. The RSPB believes that the UK should seek to ensure that the SFP for sugar growers is capped so that it is similar to that on comparable lowland farmland and so that funds are freed up for environmental and social payments to the sugar sector. (See Executive Summary recommendations (i) and (ii).)

25. In the long-term, the RSPB believes direct payments should be phased out and the funds should be used to support the public benefits of agriculture, including wildlife, clean water, diverse and attractive landscapes and thriving rural communities.

The Changes to the Quota Arrangements

26. The quota system has resulted in an absurd situation where sugar beet is produced in areas where it is neither environmentally or economically sustainable. It has also restricted the growth of sugar production where it is more suitable. We agree with the recommendation in the 2004 EFRA Committee report on reform of the sugar regime that quotas should be lifted once market balance is achieved, and we are disappointed to see no recognition of this as a long-term objective in the reform proposal.

27. One of the priorities of the reform must be reducing sugar production in the EU from the current levels of 125–150% of consumption so that European sugar is no longer dumped on the world market at the expense of poorer countries. The voluntary restructuring scheme will mean that the more efficient producers of sugar beet will be able to continue production, while the less efficient producers will be encouraged to leave the industry.

28. In general, the more efficient producers of sugar beet are in Northern Europe,\textsuperscript{25} where beet production can carry some environmental benefits, while the less efficient producers are often those Member States where production is dependent on irrigation (eg Italy, Spain, Portugal). Allowing the reduction in beet production at the European level to be achieved by variable cuts according to the efficiency of production in each Member State is therefore more desirable than a straight cut in each State.


29. The RSPB welcomes the flexibility of this scheme, as it will result in a reduction in growing sugar beet in areas where it is grown under irrigation and is usually both economically inefficient and environmentally destructive, such as the Mediterranean countries.

30. However, the Commission should monitor the scheme carefully and be willing to propose mandatory cuts if EU production is not sufficiently reduced. These cuts should be based on a regional assessment of the environmental impact of beet so that reductions occur in the most damaging areas. We suggest a transitional target for this reform of the EU producing a maximum of 90% of the EU’s domestic sugar consumption. This would address the environmental and social problems caused by over-production and leave room for increased imports from the LDCs through the Everything But Arms (EBA) agreement.

RSPB
September 2005

Memorandum submitted by Tom Meikle

1. What are the non-market benefits of protection for sugar providers for the EU as a whole?

I can only speak about the environmental impact of sugar beet in the UK. As a farmer who has grown it for many years and has a keen interest in conservation, (NFU and English Nature Farming for Wildlife winner 2004 and Silver Lapwing runner up in England 2004), I can say the environmental benefits are vast.

— Birds find sugar beet a very attractive crop; Sugar beet is planted in March–April time, this allows over wintered stubbles to be left on light land before planting; this benefits all farmland birds.

— Our sugar beet has no insecticide other than a seed dressing; optimum herbicide usage allows enough weed numbers to provide seed for chicks and birds right through to the end of January; Only 1 dose of fungicide and small amounts of nitrogen are applied (over application of nitrogen will increase impurities in sugar and decrease sugar content); All make it a very environmental friendly crop to grow.

— Because 50% of the crop is harvested after Christmas, the following crops are often set-aside or a spring cereal; therefore sugar beet provides benefits for three years form just one crop. Sugar beet is grown on our farm on a rotation of one in three years; so you can see that if it was removed form the rotation it would have a major impact. We have a healthy population of corn buntings and skylarks and also have lapwings, grey partridge and turtledoves—all species in decline.

— Small mammals like field voles and field mice also find sugar beet an attractive crop and so in turn, it provides good hunting ground for barn owls, kestrels and buzzards. The Barn Owl Trust says sugar beet is their favourite crop.

2. The extent and timescale of the proposed price reductions

At present, it costs between £16 and £19 per tonne to grow sugar beet; with the proposed cuts, the price could drop as low as £17/tonne which would make it unprofitable to grow. It is assumed by some that if the price does not fall as low as this and stays up in the low £20s, it will be more profitable than break crops like oil seed rape, beans etc. But sugar beet is not a break crop; it is a cash crop because there is a yield reduction in the following crop unlike beans, oilseed rape and peas which enhance the yield potential of the next crop. This is partly because of the late harvest and the impact of the large harvest machinery used in winter conditions.

My farm is reliant on sugar beet for a large part of its profit; the cost of growing it has already been cut to a minimum and I expect to see costs increasing over the next few years; increases in the price of oil will have a significant impact on the cost of inputs, contractors and haulage.

Sugar beet is too important a crop to drop before the full details of the EU proposals are finalised. It should be from that date that a suitable period of adjustment should be given, not before.

3. Implication for UK agriculture—alternative land use

Alternative crops would probably be wheat or oil seed rape. Growing these crops on a farm of our acreage would make the farm unprofitable. It would need considerable investment in machinery or becoming even more reliant on contractors. This would in turn mean looking for alternative income which has implications for tax, agricultural relief etc as well as reducing the time needed for farm maintenance and conservation work.

If sugar beet acreage drops, the beet factories will become unviable in certain parts of the country. This in turn will make it unprofitable to grow in certain areas because of the increase in haulage costs.
4. Proposed arrangements for compensation

Compensation for sugar beet growers for loss of earnings etc should go to sugar beet growers. This would enable beet growers to continue growing this valuable crop and in turn allow contractors who are not growers but have invested large amounts of money in machinery to continue (eg £300,000 for a new harvester). Giving the compensation allocated to sugar beet growers to all farmers would not make it compensation for loss of income or investment in machinery. It becomes almost irrelevant. Single Farm Payments on sugar beet ground is not compensation when you consider that vegetable growers, who received no aid in the past, will get Single Farm Payments as well as the extra sugar beet growers’ compensation, if the present proposals are implemented.

Going from sugar beet into vegetable production could mean loosing Single Farm Payments because authorisation will not have been allocated, putting beet growers at a disadvantage to vegetable growers.

Tom Meikle
Sugar Beet Grower
September 2005

Memorandum submitted by Joan Noble

EXECUTIVE SUMMARY

The reform of the EU sugar regime is long overdue. The current system is highly complicated, restricts competition, encourages over production, is over protectionist and inflates consumer sugar prices. The rules are now under pressure from the EU’s international commitments and a move to a more liberal regime is required. Any change must be agreed as soon as possible to allow the EU’s sugar industries time to plan for the future and, where necessary, diversify out of sugar production. Reforms have to be agreed which will reduce support price levels.

While a system of full liberalisation and abolition of regulation would be welcome in the future, there has to be a phased change to allow the most efficient producers in the EU to adapt to new circumstances. Sugar beet remains an important crop for the British farmer and it must be possible to allow production of sugar in the UK and at the same time continue to provide preferential arrangements to the UK’s traditional suppliers of raw cane sugar.

While much of the proposed change is to be welcomed there are some details which could be improved, particularly to avoid carrying forward imbalances from the current system and provide a greater degree of flexibility despite the rigid quota requirements. A more defined transition to a liberal market orientated system would also be desirable.

GENERAL COMMENTS

1. This long awaited reform is essential. The current system which has largely been in place with little reform since 1968 has little relevance in today’s political and economic climate. The European Union has moved for other crop products from a system of price to direct farm income support and these proposals to reform the sugar regime (albeit only partially) continue that trend. The current system is no longer sustainable particularly when the EU’s international commitments are taken into account.

PRICES

2. The support price reduction is essential although this price is still above world market levels at this juncture. This may not always be the case because of the volatility of world market prices. Initially consumers will not benefit from the price cuts because of the application of the restructuring scheme. It is unlikely that consumers will be able to source sugar below the reference price even when world market prices are very low as the reference price will be the trigger point for private storage and other support arrangements which will replace intervention.

3. The proposals for the minimum sugar beet price do provide some flexibility in that growers and processors can negotiate up to 10% lower prices although at least 90% of the minimum beet price will be paid on all sugar delivered, even that produced for out of quota sales (for industrial and other use). While the commission plans a less rigid approach to price for farmers, there is still considerable rigidity in the proposed floor to the market.

4. The price reporting mechanism is unclear. Could this lead to competitive issues amongst sugar companies following the restructuring envisaged?

5. In the proposed amendment to regulation 1782/2003 on direct payment to farmers, to compensate for the price reductions, there is no provision to allow a higher level of compensation to farmers in countries who have in the past been paid higher sugar beet prices than the common level.
Change in Marketing Year and Duration of the Regime

6. The change in the start of the marketing year from 1 July to 1 October is a good idea as this merges the marketing year with the balance sheet year and stocks are at their lowest by the end of September. However, some further clarification is required as to how imports will be handled. Will additional amounts be established for the three months?

7. The planned duration of the regime until 2014–15 is welcomed for the stability it produces but it must be questionable whether there will need to be further price changes following the conclusion to the Doha development agenda. There is currently uncertainty about the future particularly as regards import tariffs and the phasing out of export refunds.

Production Quotas

8. The continuation of rigid production quotas does not allow for a more liberal market and is out of line with the approach taken for other crop products produced within the EU. While there needs to be some control on production while the restructuring process is underway, there are problems because this continues some of the inequalities inherent in the old regime. The basis of the reform is to help the most efficient producers to continue sugar production while helping the least efficient out of the market with financial incentives.

9. There are two possible ways the most efficient producers can increase their market share under the proposals. The first is through buying a reallocation of C sugar production where the farmers and companies who produced the largest quantities of C sugar in the 2004–05 marketing year gain the most. Farmers and companies whose past production of C sugar was seen as (what was originally envisaged) a “safety net” produced less C sugar and will not benefit to the same extent from this reallocation. Perhaps they too should be able to buy additional quota on the same terms as those entitled under the proposals. Some Member States—it could be argued—are being rewarded for deliberate overproduction in the past.

10. The second allows for up to 10% transferability of quota within a member state. This system can only benefit those countries where there has not already been significant restricting and consolidation of the industry. Some countries where there are efficient producers (like the UK) will be unable to benefit from this reallocation and therefore unable to grow their market share as they are already sole producers in that Member State. In these circumstances there should be the possibility of cross border transfers (subject to some control) to allow greater flexibility of the redistribution of production quota in the longer term.

11. The proposed introduction of the principle of a levy on sugar produced outside the quota, which is not carried forward or used in the industrial sector, is a sensible way to control over production. Such a scheme already exists in the dairy sector and the so called “super levy” has largely been effective in controlling over production outside the quota. It is curious, therefore, that the commission proposes this at the same time as proposing to “reward” past over producers with allowing them to increase their quota.

12. The simplification of the quota system by merging the A quota with the B quota should be welcomed as a principle. However, this has some hidden difficulties. To meet WTO commitments on exports, the commission has to adjust quotas on an annual basis. This is achieved through the use of coefficients which were established by the council of ministers. The impact of the coefficients was to weight the quota changes so that those producing greater quantities of B sugar (which originally was envisaged as quota for export with the largest B quotas being held by countries producing surpluses) had a larger share of the production quota reductions. Although not spelt out in the proposal, it must be assumed that future quota changes, if required, to meet international commitments would not reflect the historical built in surplus and would have equal impact on all member states whether they were in surplus or deficit.

13. On a more positive note, from 2007–08 the announcement of quota adjustments will be made earlier than currently applies. Under the existing rules the adjustments are made in September—long after the beet has been planted—while from 2007–08 it is envisaged that the adjustments should be made by the end of February the previous marketing year.

14. The planned increase in isoglucose quota is to be allocated to existing producers, basically as compensation for price cuts. Margins in the isoglucose industry will be severely cut because of the support price reductions.

Future Quota Cuts

15. A system of voluntary restructuring rather than compulsory quota cuts should be welcomed as this takes into account the economic reality of sugar production. However, if the restructuring does not produce the desired effect then there will be compulsory quota cuts. While details are still to be decided it must be assumed that future quota cuts (both temporary and permanent) would be on a pro rata basis. This would not reflect either areas of particular market deficits or surplus and could result in possible supply difficulties or higher consumer prices in peripheral regions.
16. The proposals allow for a permanent quota reduction from 2010 (to be agreed under management committee procedure). It is not clear what would happen if the restructuring measures result in a need for quota increases to meet domestic consumption requirements. Further there is no provision to allow for the ultimate abolition of production quotas to allow a more market orientated scheme to evolve.

**Exports**

17. Exports are expected to be reduced to virtually nil under the new regime. However, under the current WTO commitment (until the conclusion of the Doha development agenda) the EU is able to export just under 1.3 million tonnes (exact tonnage to be confirmed following enlargement from EU15 to EU25). There are markets for EU sugar and this is a dramatic cut from the 2005-06 level of exports (around six million tonnes). Under the proposed new rules there is no scope to export so called C sugar at world prices (without subsidy) and the only exports will be production within the quota arrangements. If there is less than the 1.3 million tonnes of quota sugar available for export (because of domestic demand or the financial restraints also applicable) then the EU will lose these export markets. The possibility of flexibility should be introduced to allow the export of sugar produced outside quota (not eligible for refunds) if there is too little quota sugar for export. Already many third country customers of sugar are being disappointed because of the WTO disputes panel ruling which has disallowed exports of C sugar and the re-export of ACP sugar.

18. It would be sensible to allow flexibility to ensure that the EU (if this is required) is able to export up to the maximum allowed under its international commitments.

**Industrial Sugar**

19. It is proposed to allow certain industrial users of sugar to contract with sugar producers to buy non quota sugar. If this is not available at world market prices, a production refund will be paid on production for domestic consumption only. There are many details to be established on how the scheme will operate, how the price will be set and whether a production refund should be paid on quota and/or non quota sugar. Further clarification is required on the details of the scheme and the products involved. Under the import arrangements (Article 26(3)) it appears that import tariffs can be suspended or reduced to allow world market price white sugar imports for this sector. It is unclear how this system would operate or why this is only for white sugar and does not include raw sugar.

**Non Annex I Users**

20. The EU is committed to the abolition of export refunds in the long term. It is clear that the planned reforms are likely to reduce sugar exports to a trickle as production levels are reduced while levels of imports will still be protected through high (if decreasing) tariffs. Prices therefore within the EU are likely for the most part to continue to be higher than world market prices. While there may be legitimate concerns from consumers over high prices these do not pose commercial risks for domestic consumption as there will be equal competition within EU territory. However, there is a real concern for food and industrial manufacturers within the EU looking to compete on the world market. When there is no longer the possibility of the payment of export refunds to make up the difference between world and EU prices (following the conclusion of the Doha development agenda) EU manufacturers may be subject to unfair competition from third country manufacturers while there is still a rigid system of price support afforded to sugar (and milk) producers. Although raw material prices are only part of the overall manufacturing cost, the impact may be that manufacturers looking to export will relocate outside the EU for that production and/or rely totally on the use of inwards processing relief to allow them to continue to be competitive. Note that it is suggested that the use of inwards processing relief (Article 24) can be “fully or partially prohibited” to ensure the “proper functioning” of the sugar market which provides uncertainty to the food industry.

**Approved Operators**

21. There is a new provision in that Member States have to approve sugar, isoglucose and inuline producers. If companies fail to comply with requirements approval status can presumably be removed and the company would lose their right to quota. It seems with the information which can be requested by Member States there could be commercial confidentiality issues to be considered.

**Market Support Arrangements**

22. Sugar companies will have to report prices so the commission can introduce measures such as private storage or quota withdrawal (or the reverse when prices rise) to support the market on a temporary basis. The reference price is used for the introduction of private storage (“if the price recorded is below the reference price”) but the exact price at which withdrawal is introduced remains undefined (“close to the reference price”).
SUGAR REFINERS

23. The proposals could cause problems for the EU’s sugar refiners. Under the present system there are set quotas for each of the refining Member State. While the overall quantity remains the same, there will no longer be any allocation to the individual Member States. At the same time the proposed abolition of refining aid will put pressure on all, but particularly, the least efficient refineries. This aid was deemed necessary under the current regime because of the difference in margins between sugar beet producers and cane refiners. The difference in margins between the two sectors is increased under these proposals so it seems incongruous to abandon refining aids at this juncture. Refineries are outside the restructuring scheme and cannot benefit from restructuring finance.

24. There is some protection afforded to refiners in that for the first three years the import quota will be allocated entirely to them and thereafter, the refineries will have initial rights to the quota for the first three months of each marketing year. However, there should be some clearer definition of “full time refinery”. What happens where a refinery is also a beet processor. Can that factory benefit from restructuring finance?

25. It also appears that all sugar imports from both ACP and EBA countries will be subject to a guaranteed price taking price negotiation for EBA imports out of the hands of the refiners.

BUDGET

26. The current regime is broadly “self financing” apart from the cost of intervention and the re-export of sugar imports. While the restructuring scheme is broadly “self financing”, it is not clear if the production charge planned of €12/tonne will be sufficient to meet the costs of the regime, including production and export refunds.

RESTRUCTURING PLAN

27. These radical proposals will have a profound impact on sugar production in the European Union. It is clear that several countries will cease sugar production as they will not be profitable when the internal price falls by 39% and some farmers looking to maximise returns will prefer to plant other crops when the sugar beet price is reduced. It is anticipated that production within quota will fall from the current 17.44 million tonnes by about five million tonnes as sugar companies take up the option of restructuring aid.

28. Whether the scheme will be too successful and introduce supply problems for EU consumers is yet to be seen though there is a ceiling on the amount of restructuring aid available which should ensure adequate supplies despite the possibly generous amount of per tonnage payment, although local supply difficulties could emerge. It must be anticipated that the major share of the aid will be taken up in the first year of the scheme.

NEED TO ENCOURAGE BIOFUELS

29. While a restructuring plan should be welcomed to ease the least efficient out of the market, it is curious that no provision is included to encourage the use of factories ceasing production of sugar to convert into biofuel production. Presumably part of the factory could be salvaged for such use. I wonder if the economics of this possibility have been considered and if there is any “joined up thinking” between DG agri and DG environment on this matter.

30. It seems inevitable that oil prices, which already have increased by over 50% in the last year, will continue to be volatile with the current instability in the middle east, concerns over US production following hurricane Katrina, increased demand from China and elsewhere. There is no better time than now to provide incentives to replace fossil fuels with renewable energy sources.

31. While not wishing to further complicate the proposals it would be sensible to allow for some form of incentive to encourage the production of biofuels, not necessarily from sugar beet but from any crop product and to encourage the use of those parts of the factories which will be subject to restructuring finance.

32. It is proposed that sugar beet grown to be sold to the industrial market (non food uses) should attract the minimum beet price which cannot be negotiated downwards by the 10% allowed for sugar beet grown for normal sugar production.

Joan Noble

September 2005
Memorandum submitted by Which?

ABOUT Which?

1. Which? is an independent, not-for-profit consumer organisation with around 700,000 members and is the largest consumer organisation in Europe. At EU level we are members of BEUC, the Bureau Européen des Unions de Consommateurs. We are entirely independent of government and industry, and are funded through the sale of our Which? range of consumer magazines and books.

SUMMARY

2. Reform of the sugar regime is urgently needed for consumers. The current regime penalises consumers through restrictions on competitive imports, the imposition of a levy to fund the export of surplus sugar, and the quota system that limits competition and restricts efficient sugar production.

3. The costs of the levy, the market inefficiencies and the restraints on competition are all ultimately met by consumers in the form of higher prices. This is particularly regressive in its effects. European consumers currently suffer all the disadvantages of a protectionist external policy, and none of the advantages that might be expected if there were a competitive internal market in sugar.

4. Through the levy, UK consumers of EU-produced sugar in Europe are forced to finance an unethical policy of dumping surplus EU sugar on world market, to the disadvantage of some of the world poorest countries. We therefore welcome moves to reform the regime, although the Commission’s proposals fall short of what is required in a number of respects. Our submission to the Committee in March 2004 set out our criticisms of the current sugar regime in some detail and they are not therefore repeated here.

PROPOSED PRICE REDUCTIONS

5. Even with the proposed price cuts, EU sugar prices will remain substantially above those on world markets. The benefits for consumers will to some extent be offset by the proposed levies to pay for restructuring.

EXTENT TO WHICH THE PROPOSED PRICE REDUCTIONS WILL BE TRANSMITTED TO CONSUMERS

6. In a competitive market, reductions in raw material prices will over time be passed on to consumers. We share the Committee’s concern expressed in its 2004 report about the lack of competition in this sector and we support the Committee’s call for a full market investigation. We would like to see a firm commitment to the vigorous application of EU competition rules to the processing industry, as part of the eventual agreement on the sugar regime.

7. We are concerned that the benefits of price cuts may also be limited by the proposed “disturbance clause” (Article 37). This could be used to undermine the limited moves towards a more competitive market.

PROPOSED MEASURES FOR COMPENSATING EU PRODUCERS

8. Which? supports the proposed decoupling, although we would like changes to the EU single payment scheme so that it is focused exclusively on environmental and other objectives and is not related to either acreage or levels of previous payments.

9. Which? opposes the proposal that consumers should, through a levy, foot the bill for restructuring a sector that has already received generous support over many years—one that the Commission itself admits is “often better-off than the average taxpayer, to the detriment of other social categories”. If it is considered appropriate to provide funds for the restructuring of the processing industry, then it should be done in a transparent and accountable way through public expenditure, and not through a hidden tax on consumers.

10. The Commission has long and disingenuously claimed that the sugar regime is self-financing, when the reality is that the costs are met through levies ultimately paid for by consumers. The proposed restructuring levy continues that policy.

11. If, however, there is to be a levy to finance the restructuring scheme, then we would want to see alternative sweeteners excluded from it. It is wholly unacceptable to impose, via the levy, the costs of restructuring the sugar industry on those consumers who choose alternative products. It would be the equivalent of a special tax on Toyota and Honda customers to fund the restructuring of Rover.

12. Which? is currently looking at the wider issues associated with sweeteners, and our wish to see the removal of economically protectionist measures in this sector should not be regarded as an endorsement of sweeteners generally or specifically in preference to sugar.
Changes to the Quota Arrangements

13. We regret the decision to retain production quotas. They maintain inefficient production and stifle competition, and their retention will limit the extent to which the benefits of reform are passed on to consumers.

14. Which? urges the abolition of anti-competitive restrictions on the production of alternative sweeteners. The policy of propping up uneconomic sugar production by hampering the production of competitive alternatives was never justified, and looks even harder to sustain in a more liberalised sugar market. Which?

September 2005

Memorandum submitted by ACP London Sugar Group

Submission from the ACP London Sugar Group representing the sugar industries of Barbados, Belize, Congo, Fiji, Guyana, Jamaica, Malawi, Mauritius, St Kitts-Nevis, Swaziland, Tanzania, Zambia and Zimbabwe.

Executive Summary

— We are extremely concerned at the Commission’s proposals on the EU sugar regime.
— Some of the proposals are not in conformity with the provisions of the Sugar Protocol and the Cotonou Agreement to which it is currently annexed.
— The Cotonou Agreement, in Article 36(4), refers to the need to safeguard the benefits of the Protocol, bearing in mind its special legal status. These benefits clearly include the price, which under the proposals would be severely eroded over a very short period.
— Currently, revenue is provided to all producers through price, whereas under the proposals beet growers will obtain their revenue through a combination of price and direct payments. We however will suffer the price cuts with no compensation.
— These proposals would thus not meet our legitimate expectations and are in contradiction with the Cotonou Agreement.
— We do not accept the Commission’s rationale for the radical price cuts proposed.
— The WTO Appellate Body ruling does not seem to require price cuts of the magnitude proposed.
— There is little prospect of a huge rise in imports from the LDCs, contrary to the claims of the Commission.
— The price cut should be no greater than is required by the need to cut import duties under the Doha Round, and any decision on price cuts should be deferred until after the conclusion of the Round.
— The price cut should be far less than the 39% proposed, should be effective from 2008 and should be evenly spread over eight years.
— We oppose the Commission proposal to impose a price cut on raw sugar in the first year to compensate for the proposed abolition of the current cane sugar refining subsidy.
— The intervention mechanism should be reinstated, to enable the effective implementation of the provisions of Article 5(4) of the Sugar Protocol on annual price negotiations.
— We believe it will be necessary to radically redraw Articles 29 to 31 of the proposals so as to preserve our long-standing marketing rights enshrined in the Sugar Protocol.
— Article 26(2) of the proposals should be amended to give priority to supplies from the ACP and LDCs able to supply Community deficits of raw sugar.
— The proposals would impact most severely on the ACP, who are the most vulnerable stakeholders. Sugar has a great socio-economic importance in ACP countries. The Commission’s proposals on “Accompanying Measures” for the ACP are totally inadequate; they must be greatly improved and backed with bankable assurances as to funding and timing as a prerequisite for agreement on the new regime.

Introduction

1. Before commenting in detail on the EU Commission’s proposals, we feel it is important to put these proposals in the context of the legal and historical framework in which we operate as suppliers of sugar to the European markets.
Special status of the Sugar Protocol

2. The three major agreements which define the obligations of the EU and UK obligations to the ACP countries are:

- Protocol 22 of the UK Accession Treaty, providing for the safeguarding of ACP interests and constituting a “specific and moral commitment” that the Commonwealth Sugar Agreement would be integrated into the EEC system. The UK assurances given in 1971, reinforced by the Community’s commitment, provided the basis for the Sugar Protocol of 1975. One quotation would sum up the importance of the Protocol:
  “The Community will have as its firm purpose the safeguarding of the interests of all the countries referred to in this Protocol whose economies depend to a considerable extent on the export of primary products, and particularly of sugar. The question of sugar will be settled within this framework, bearing in mind, with regard to exports of sugar, the importance of this product for the economies of several of these countries and of the Commonwealth countries in particular.”

- The Sugar Protocol (SP), comprising for an indefinite duration guaranteed import quantities of some 1.3 million tonnes at a guaranteed price;

- The Cotonou Agreement, Article 36(4) of which relating to commodity protocols including the Sugar Protocol is probably one of the most important provisions of the Cotonou Agreement as far as ACP sugar is concerned. This states:
  “In this context, the Parties reaffirm the importance of the commodity protocols, attached to Annex V of this Agreement. They agree on the need to review them in the context of the new trading arrangements, in particular as regards their compatibility with WTO rules, with a view to safeguarding the benefits derived therefrom, bearing in mind the special legal status of the Sugar Protocol.”

Benefits of the Sugar Protocol

3. The concept of safeguarding the benefits of the SP is particularly important for the ACP. These “benefits”, to which Article 36(4) of Cotonou refers, clearly include the price, which under the Commission proposals would be severely eroded over a very short period.

4. Since the inception of the Protocol in 1975, the price and agreed quantities have been the main determinant of the export earnings of the ACP suppliers. The ACP guaranteed price has been aligned on the EU Intervention Price fixed annually. This alignment of the ACP guaranteed price and, therefore, their export earnings, with the EU intervention price i.e. the EU sugar producers, have created a legitimate expectation. It has provided a predictable level of earnings to the ACP comparable to the EU producers, and has ensured the continuous modernisation and rationalisation of the ACP sugar industries, as well as the sustainable development of ACP countries through judicious diversification of their economic base.

5. Under the Commission proposals, only part of the income of the EU beet sector would be provided by the price, the remainder being provided in the form of compensation to beet growers. In contrast, no compensation is being offered to the ACP cane sugar sector, and thus the link between our export earnings and the earnings of the beet sector will be broken to our disadvantage. The Commission proposals would thus not meet our legitimate expectations in terms of safeguarding the benefits of the SP and are in contradiction with the Cotonou Agreement.

The Proposals: Analysis of Rationale for Price Reductions

6. Our long-standing relationship with the EU as reliable sugar suppliers to the European markets is now severely strained by the European Commission’s plans for radical price cuts which they propose to implement over a very short period starting in 2006.

7. In the Agriculture Commissioner’s recent speech to a conference of stakeholders, she explained that the Commission’s radical proposals are driven by two external considerations: the need to respond to the WTO panel ruling on EU export subsidies; and the risk of imports from the LDCs disrupting the internal EU market once duties are completely removed under the EBA initiative.26

8. We do not accept the Commission’s justification for their proposals.

26 Speech by Mariann Fischer Boel, Agriculture Commissioner, “Preparing Europe’s sugar sector for a competitive future”; Conference by CEPS, CIBE and EFFAT, Brussels, 28 June 2005. “We have lost a WTO panel requested by Australia, Brazil and Thailand. A panel which effectively requires us to cut back sugar exports by 4.6 million tonnes—and which therefore takes away an important safety valve for letting out pressure from our domestic market. On the other side of the balance sheet, millions of tonnes of sugar could start coming our way from the Least Developed Countries from 2009 onwards under the Everything But Arms agreement. Any changes we make to the sugar common market organisation have to be measured against these trade-related challenges.”
WTO Appellate Body ruling

9. The Commission claims that it is imperative to reduce production in order to bring exports down to the limits agreed in the URAA and clarified by the recent WTO ruling against the EU. However, the ACP have not been responsible for any increase in supply contributing to this problem, and therefore should not be asked to bear such a disproportionate and inequitable share of the burden.

10. In any case, it is by no means clear to us that price cuts of the magnitude proposed are needed to bring about a fall in EU production such as seems to be required. We are ready to support the recent proposals to allow a certain level of exports within the agreed limits in order to alleviate the problem, allow extra room for ACP/LDC sugar and to ensure market balance.

Imports from LDCs

11. The Commission has stated that among its motivations is the desire to ensure that imports from least developed countries do not increase, by making it economically unattractive for them to supply the EU market. Thus the Commission acknowledges that an element of its strategy involves a targeted attack on sugar suppliers in the LDCs, which contradicts the sustainable development focus of the EBA initiative.

12. This is all the more inexplicable as the prospect of an unmanageable rise in imports from the LDCs is less clear than the Commission claims. In the case of the LDCs, the logistical constraints they face and their need to keep their local and regional markets supplied would make this exaggerated threat groundless.

WTO Doha Round

13. We understand that because of the Doha Round the EU may have to cut import duties, and it follows that a price cut would be needed to accommodate this in order to avoid the EU market being swamped with imported sugar. However, the Commission’s price reduction proposals go far beyond what could be required in terms of the July 2004 Framework Agreement. The price cut should not be larger than is strictly required by the outcome of the Doha Round.

14. In this regard the EU should use all its political weight to make the best of the provisions of the July Framework Agreement as regards both the extent and timing of any price cuts. These provisions, set out in paragraph 44 of the Agreement and paragraph 16 of the Harbinson Text, include special treatment for sensitive products, the possibility to invoke safeguard clauses, and the recognition of the need to safeguard long-standing preferences. We stand ready to work together with the EU to promote such issues of common interest.

15. A decision on the extent and timing of the price cut should therefore be deferred until after the completion of the Doha Round, and the Commission should use other mechanisms at its disposal to manage the market.

16. It is unnecessary to rely solely on the price mechanism to achieve the desired end, especially in view of its hugely disruptive effects. Consequently the price cut should be more in line with the proposals made by other stakeholders, NGOs, the European Parliament, etc. It should be far less than the 39% proposed, should be effective as from 2008 and evenly spread over a period of eight years.

Proposal to abolish refining aid

17. We must point out that the proposal to eliminate the adjustment aid currently paid to EU refiners is most unfair, as it will result in an immediate price cut for raw sugar, which the Commission expects the ACP Protocol suppliers to bear. This budget saving will, in effect, be used by the Commission to finance part of the compensation to beet growers.

18. The cost of the adjustment aid should be borne not by the ACP but, as presently, by the EU Agriculture Budget. We therefore ask that the Commission proposal be amended so as to reverse the imposition of the cut in raw sugar prices in the first year of the new regime and ensure that this additional cost burden is not imposed on the ACP countries.

Other aspects of the proposals

Abolition of intervention buying

19. We maintain that the Commission’s reform proposals do not conform with Article 36(4) of the Cotonou Agreement under which there is provision to safeguard the benefits derived from the Sugar Protocol bearing in mind the special legal status of the Protocol.
20. The Commission has proposed to abolish intervention buying of sugar, which is the main price support mechanism in the current regime. The intervention agencies are the buyers of last resort and give effect to the concept of price guarantee. The reform proposals do not provide the price guarantee.

21. Moreover, Article 5(4) of the Sugar Protocol provides for the guaranteed price to be negotiated annually within the price range obtaining in the EU market, taking into account all relevant economic factors. If the intervention price is replaced by a reference price, we would query how the Commission proposes to implement Article 5(4) of the Protocol.

22. In short, we feel that abolition of the intervention mechanism would seriously undermine the price guarantee contained in Articles 5 and 6 of the Sugar Protocol. We therefore maintain that the Commission proposal should be amended so as to reinstate the intervention mechanism and enable the effective implementation of Article 5(4) on annual price negotiation and thereby comply with the provisions of the Sugar Protocol.

Regulation of preferential imports

23. The Commission proposes, in Articles 29 to 31 of the draft legislation, to introduce new rules governing the import of preferential sugar. We would respectfully request an explanation of how these rules can be reconciled with our rights set out in Articles 1, 5 and 9 of the Protocol, freely to market the Protocol Guaranteed Quantities as raw or white sugar, for refining or otherwise, in the European market.

24. We believe it will be necessary for Articles 29 to 31 to be radically redrawn so as to reflect fully the terms of the Protocol and to preserve our long-standing rights. This is all the more important given the pressure we will be under to maximise our earnings from more value-added exports.

25. The proposed continuation of the MSN in the form of a “traditional supply needs” mechanism for refineries would severely hinder ACP countries from pursuing their marketing strategies.

26. All additional quantities of sugar required to supply refineries should be sourced from the ACP and the LDCs, once supplies under the Protocol and the EU’s other existing preferential import arrangements have been exhausted. The ACP have established a track record as reliable suppliers to the EU market. We therefore ask that the relevant Article 26(2) of the Commission’s draft legislation be reformulated so as to give priority to supplies from the ACP and the LDCs.

COMPARATIVE ANALYSIS OF COMMISSION’S PROPOSALS FOR VARIOUS STAKEHOLDERS

27. In the broadest possible terms, analysis of the Commission’s proposals reveals that the EU beet growers (“CIBE”), EU beet processors (“CEFS”), EU Refiners (“CERPSCA”) and ACP raw sugar suppliers (“ACP”) would suffer losses in 2009–10 as follows:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Percentage loss in price or margin 2005 to 2009 (%)</th>
<th>Rough estimate of annual revenue loss in 2009 (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEFS</td>
<td>–28</td>
<td>900</td>
</tr>
<tr>
<td>CERPSCA</td>
<td>–64</td>
<td>100</td>
</tr>
<tr>
<td>ACP</td>
<td>–48</td>
<td>300</td>
</tr>
<tr>
<td>CIBE</td>
<td>–21</td>
<td>2,600</td>
</tr>
</tbody>
</table>

28. Overall, in broad terms, the cane sector (ACP and CERPSCA) would lose out by approximately twice as much in percentage terms as the beet sector, without taking into account any mitigating impact of the accompanying measures for the ACP. For the ACP, the size of the percentage loss is partly accounted for by the fact that they, in contrast to the beet producers, have to bear the cost of inland transport, storage, freight and insurance.
29. The table above gives detailed calculations. The figures quoted above are as far as possible equivalent figures; thus for all millers and refiners, the impact is compared the ex-mill stage, however, for beet growers the impact is given at the factory gate stage.

30. We need hardly add that this demonstrates the total lack of balance and equity in the Commission’s proposals, in that the ACP as the most vulnerable stakeholder is treated far worse than other producers.

Impact on Economies of ACP

31. The ACP Sugar Protocol Group comprises 18 countries supplying sugar to the EU. Most have been reliable trading partners with the EU since 1975 and for a much longer period with the UK. Most can be categorized as small developing nations which are vulnerable to severe climatic disruptions and external economic shocks. Most have a high dependence on sugar exports for contributions to GDP, foreign exchange earnings and employment especially in the rural areas. Some have been classified as LDCs and all have significant sectors of poverty within their economies.

Socio-economic importance of sugar in ACP States

32. However mere statistics, impressive as they may be, do not convey the full socio-economic importance of the sugar industry which has a major multi-functional role in our countries. In particular:

- It delivers a wide and transparent distribution of sugar income especially in rural areas;
- In addition to direct employment, the multiplier effect of indirect employment and benefits in ancillary and support industries in the sugar cluster indicates that as many as three million people derive part or all of the income from sugar;
- In many ACP countries the sugar industries are directly responsible for the provision of primary health care services (including hospital care and public health programmes), local education, housing, recreation, and community services;
- It provides renewable and environmentally friendly energy both for the mill and increasingly for the national electrical grid, thus reducing dependence on costly fossil fuels.

33. Because of the sheer scale of its scope and its long historical involvement, the sugar industry is woven into the tapestry of our rural economies.

ACCOMPANYING MEASURES FOR THE ACP

34. We were initially encouraged by the EC’s apparent understanding of the crucial role of sugar and the EC statement of a firm commitment to mitigate the devastating effect of such a radical sugar reform proposal. It was stated that there would be a financial support package from funds which would be additional to the European Development Fund.

35. However, the Commission’s proposed Action Plan for Accompanying Measures for the ACP, published in January 2005, will not provide the level of assistance required within the requisite time frame. Its provisions are unnecessarily burdensome and time-consuming. No monetary value has been placed on the assistance, and there is no timetable for disbursement. No clear linkage has been established between the financial assistance offered, the trade losses which will be sustained and the resources required.
36. In contrast, the negative impact of reform on the livelihoods of the EU’s own beet and cane suppliers was acknowledged from the outset and the reform proposals have been directly linked to the provision of immediate financial payments to growers, irrespective of whether or not they remain in sugar production.

37. Our industries are in need of immediate short term funds to cater for the cash flow constraints caused by existing restructuring activities, bearing in mind the loss in export earnings with which we are faced in 2006. ACP industries should also qualify to receive income support to take account of the lag between investments and productivity gains to be reaped therefrom.

38. We concur with DEFRA’s suggestion of a dedicated consumer levy as a source of funding for Accompanying Measures.

39. It is essential to have a clear bankable commitment of the amounts and timings of finance from the EU. Funding must be front-loaded and disbursed according to simple fast-track procedures. This should be a prerequisite for any agreement on the new EU sugar regime.

CONCLUSION

40. The ACP have always remained ready to work with the European Union in all appropriate fora to discuss strategies designed to promote their sustainable socio-economic development through trade, in particular sugar, in line with the Cotonou Agreement and other binding instruments.

41. The need for reform of the EU sugar regime is accepted, but we have to say, with regret, that so far the concerns of the ACP have been completely ignored.

42. We realise that ACP sugar industries must continue to pursue their modernisation and rationalisation plans to become more competitive. However, we consider that the EU proposal for reform is disproportionate and discriminatory vis-à-vis the ACP. The incoherence of EU policies undermines their capacity to use trade as a vehicle to achieve the Millennium Development Goals (MDGs).

43. The Commission’s proposal in its present form has far reaching consequences including the destruction of our sugar industries, with devastating consequences for ACP states. In particular, it will impact negatively on their social fabric, employment and security, and the achievement of the MDGs to which the ACP and EU member states attach the highest priority.

44. We consider that certain aspects of the Commission proposal are not compatible with the provisions of the Sugar Protocol and would urge the UK Government to insist on compliance.

45. We reject the contention of the Commission that the opening of the EU market to LDC countries under the EBA initiative would require the proposed radical price cuts. We also note that such deep price cuts go far beyond the requirement implied in the July Framework Agreement or needed to meet the EU’s likely WTO commitments.

46. The ACP and LDC Sugar Groups propose a managed market through a quota system and an adequate level of price ensuring that EU production and ACP/LDC improved market access match the EU’s internal consumption.

47. Many ACP/LDC countries will be able to benefit from additional and accelerated access to the EU sugar market, and moreover access for all qualities of sugar which will allow us to add value to our sugar production at home rather than be condemned simply to supply raw sugar for refining. As a group, we therefore seek to supply more and higher value sugar to the EU market.

48. We register with regret that the European Commission’s offer of accompanying measures for the ACP states, amounting to €40 million in first year and an unspecified amount in subsequent years, is utterly inadequate to provide the ACP states with bankable assurances necessary to modernize, restructure and improve the competitiveness of our industries in order to ensure their long-term viability. The provision of adequate, front-loaded EU resources for the ACP should be urgently addressed before the conclusion of negotiations on the new regime.

49. In summary, the Commission’s proposals are in contradiction to the terms of the Sugar Protocol and the Cotonou Agreement. The Commission has relied too much on price cuts as a management tool. It has unnecessarily pre-empted the outcome of the Doha Round, and has overstated the impact of the EBA initiative. Its proposal discriminates unfairly against traditional cane sugar suppliers, who are least able to withstand such a price shock. A far less radical price cut, phased in over a much longer period and commencing after the end of the Doha Round negotiations, would meet the EU’s objectives if combined with measures to cut EU production.

ACP London Sugar Group

October 2005
Further supplementary memorandum submitted by British Sugar Plc

BRITISH SUGAR RESPONSE TO TATE & LYLE’S SUPPLEMENTARY EVIDENCE TO THE COMMITTEE

INTRODUCTION

In their supplementary evidence, Tate & Lyle (T&L) make four main claims:

1. That the reform proposals reduce their margin by more than beet processors’, so they should be given a refining subsidy to correct this “imbalance”.

2. Refiners can compete in a totally deregulated market whereas beet processors cannot; so they should receive special treatment.

3. Beet processors have been allocated quotas—refiners should therefore get guaranteed cane raws supplies.

4. Refiners offer the principal gateway to the EU for ACP and LDC developing countries, by acting as the “agent” for their cash transfer from the EU.

We have structured our responses under these same headings.

FINANCIAL EFFECTS OF REFORM PROPOSALS ON REFINERS AND BEET PROCESSORS

— T&L’s basic claim is that their gross margin has been cut by 77% compared to only 44% for beet processors (p 10 of their submission). This comparison is fundamentally flawed for two reasons.

— First, the comparison has not been done on a fully costed basis, as it completely excludes all the operating costs and assets for each sector. This introduces a major distortion, as the product transformation, including operating costs and assets used in the beet sector, are typically 2-3 times those in refining. The reason for this is that all the primary cane processing is carried out in the country of origin: the refinery merely “cleans up” the raw sugar already produced (as explained on pages 8 and 9 of T&L’s submission), whereas beet processors have to carry out the entire operation from crop processing to white sugar refining and storage in a single continuous process.

To avoid this distortion it is essential to do the comparison on a fully costed basis using actual figures.

— The second flaw in the comparison is that the prices assumed for 2004–05 and 2009–10 are not the same: a relatively high market price has been used in 2004–05, but the lowest possible support (or “Reference”) price has been used in 2009–10. The effect of this inconsistency has been to magnify the apparent differences, and distort the figures even more.

— Removing these two distortions completely alters the results. Annex 1 of the report27 enclosed with our earlier submission, summarises the effects of reform on net margins and return on assets for both sectors.

— The report demonstrates that for a wide range of operating costs the financial effects of the reform proposals (measured as % net margin reduction and return on assets) are similar for European refiners and beet processors.

— It also demonstrates that higher cost refiners are more favourably treated by the proposals than higher cost processors.

— The operating cost figures presented in Annex 1 of the British Sugar report27 have been taken from studies carried out by sugar economists LMC International. LMC’s report on the UK refiner is attached with this response.28 It concludes that their overall refining costs are $74/tonne (about £60/tonne). If LMC’s assessment is accurate, then the UK refiner will have a net margin reduction of 43%, and will generate a return on assets of 28% under normal market conditions—considerably better than even the lowest cost beet processors in the EU.

— Doing the comparison on a fully costed basis demonstrates that the financial effects of the reform proposal on European refiners and beet processors are broadly similar—there is therefore no justification for special treatment for refiners in the form of a refining subsidy.

— On the contrary, the margins calculated for beet processors in the above report27 assume beet supplies can be secured at €25/tonne of beet. In reality this is highly questionable, even in efficient growing areas like the UK. Any beet price top up necessary to secure adequate beet supplies would reduce processors’ margins even more than shown.

— On page 3 of their submission T&L also comment that they have been excluded from participating in the Restructuring Scheme. This anomaly could be corrected in several ways, for example by arranging a separate refiners’ restructuring fund.


COMPETING IN A TOTALLY Deregulated Market

— T&L have repeatedly claimed they could survive in a totally deregulated market. This assertion has been used to promote the notion that their operations are somehow more economically “pure” and justifiable in the context of a European market which is partially regulated.

— The figures behind this claim are set out on page 6 of their evidence. In this, they have assumed figures for extra freight (i.e., shipping) costs of $55/tonne and for extra unloading/storage of $20/tonne. No sources have been attached to support these figures.

— We have secured quotations as follows (full details are available if required) which suggest these figures are inflated:

<table>
<thead>
<tr>
<th>Extra Freight Cost</th>
<th>$20/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra Unloading Costs</td>
<td>$10/tonne</td>
</tr>
</tbody>
</table>

This indicates that the total refining margin available in a deregulated market is not $120/tonne as stated on page 6 of their evidence, but $85/tonne:

<table>
<thead>
<tr>
<th>$/Tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra Sugar Cost</td>
</tr>
<tr>
<td>Extra Freight Costs</td>
</tr>
<tr>
<td>Extra Unloading/Logistics Costs</td>
</tr>
<tr>
<td><strong>85</strong></td>
</tr>
</tbody>
</table>

— This total available refining margin must cover both the refiner’s costs and a reasonable return for the business. The lowest acceptable level of return on total net assets to enable any business to cover its cost of capital is roughly 10% (this is half that suggested by T&L in the Select Committee hearings). For European refiners, this would be equivalent to about $35/tonne.31

— This implies, by subtraction, that to be able to compete in a fully deregulated market then a refiner’s operating costs must be no higher than $50/tonne (£42/tonne).

— If T&L are indeed this efficient, they would receive much higher returns from the reform proposals than any European beet processor (see accompanying report27).

— Their returns from the reform proposals would also be higher than in a totally deregulated market.

— In addition, if T&L can genuinely compete in a totally deregulated market as they claim, then they would be able to “toll refine” world market raw sugar, by taking advantage of the differential in price between raw and white sugar on the world market. There are no regulatory restrictions preventing this happening, so their refinery would always be able to top up their normal ACP/LDC supplies, and need never have to operate under-capacity (page 9 of their submission suggests their Thames refinery is only operating at 85% capacity).

— Finally, pages 18 and 19 of their submission lists 12 refineries worldwide which have been built or expanded in the last decade, suggesting that competing in a totally deregulated market is straightforward for stand-alone refineries, and relatively commonplace. However, this is not the case. Of the 12 refineries quoted, 11 are protected by import tariffs and are therefore not operating in a deregulated market at all.

GUARANTEED CANE SUPPLIES FOR REFINERS

— T&L assert (on page 2 of their submission) that refiners should be granted guaranteed “base supplies” to cover their fixed costs, similar to the beet sector’s production quotas.

— One of the European Commission’s main reform principles is to bring the EU market into supply/demand balance. It proposes to do this by eliminating 5 million tonnes (30%) of Europe’s beet quota production. Refiners are completely protected from these permanent quota cuts. If refiners want “quotas” similar to the beet sector, then they must be prepared to shoulder part of the burden, and accept that their supplies should be reduced in line with everyone else’s. This could easily be done without jeopardising the ACP commitment, by sharing raws supplies with beet processors.

— This claim also implies that beet quotas offer a guaranteed volume and supply for beet processors. This is not the case. On the contrary, the European Commission has deliberately set the beet price so low (£25/tonne) that many beet industries will shrink or collapse: hence the cut in beet quota production of 5 million tonnes. Even in efficient countries like the UK, beet supplies are not assured—as concluded in DEFRA’s impact assessment. European beet quotas are therefore a ceiling, not a guarantee.

29 How Robinson Shipping Ltd.
30 GP Shipping, Port Agency Services; JPL Stevedoring Contractors.
32 Toll refining is a process where world market raw sugar is temporarily imported, refined and the refined white sugar re-exported outside the EU. No tariff is paid on these imports.
In addition to being totally protected from permanent quota cuts, refiners have also been offered two further concessions on supplies: complete exclusivity for the first three years of the reform, and preferential access for 2008 to 2015.

These concessions offer refiners considerably more security of supply than beet processors—there is certainly no case for increasing this imbalance by offering refiners even greater supply guarantees.

**European Gateway for ACP**

T&L have often suggested that stand-alone refiners are a necessary gateway into Europe for ACP (and LDC) developing countries. They comment on it again in their supplementary evidence (page 1).

However, the attached letters from two principal ACP suppliers, Swaziland and Fiji, to DEFRA tell a very different story.

Points made in their letters include:

- Restricting cane raws supplies to full-time refiners, as proposed in Article 29(2) of the Commission’s proposals, is against the interests of ACP countries, and contravenes the terms of the ACP Protocol.
- Freedom to supply cane raws to a variety of buyers, including beet processors, would improve the terms, conditions and prices available for ACP countries, so giving greater value to their EU market access.
- Port handling facilities at T&L’s Thames Refinery are sub-optimal, for example because vessels sizes are restricted, which increases ACP countries’ costs.
- ACP returns have recently been adversely affected by operational and commercial constraints imposed by refiners on their contracts by refiners.
- In reality, “co-refining” cane raws in beet factories is a highly efficient process, which is common practice outside the EU.

**Conclusions**

The Commission’s sugar reform proposals are radical and hard-hitting. They have been specifically designed to restructure the whole of the European sugar sector, to eliminate the surpluses and to drive efficiency.

As such, they will have severe effects on everyone. The European beet industry, for example, is expected to have to close over 50 factories with between 80,000 and 150,000 jobs lost.

In this “brave new world” there can be no guarantees. Even for the UK beet industry, regarded by the Commission as one of Europe’s most efficient, beet supplies are not assured and the forfeit of UK quota into the Restructuring Scheme cannot be ruled out.

Like the rest of the European industry, refiners are worried about the effects on them of the coming reforms. This is understandable—we all are. But refiners have already been offered valuable concession in the proposals. Apart from their possible inclusion in the Restructuring Scheme, any further concessions are wholly unjustified and would move the beet/cane balance even more in their favour. The reforms will have tough consequences for everyone, including refiners. This is true, but does not justify exclusive handouts to prop up one sector which are denied everyone else.

British Sugar
November 2005

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**Further supplementary memorandum submitted by Tate & Lyle Sugars, Europe**

**Executive Summary**

1. This supplementary evidence is in response to the Committee’s disclosure of supplementary evidence from British Sugar on refining issues. TALSE is grateful to the Committee for the access afforded to the British Sugar supplementary evidence. However, TALSE is very disappointed that British Sugar’s submission—which seeks to undermine the sugar refining sector—is based on detailed data and calculations which are not published for reasons of “confidentiality”. This makes it virtually impossible to provide the

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33 Evidence given by Lars Hoelgaard of the European Commission to the House of Lords Inquiry on sugar reform, October 2005.
34 European Economic and Social Committee, October 2005.
full and robust response which the paper requires particularly as it would appear that incorrect figures may have been used, the methodology may be flawed and figures extracted out of context (eg £250 million on capital employed in the UK refining operation for taking sugar from raw to bulk).

2. The British Sugar evidence explicitly suggests that TALSE is seeking concessions and special treatment. TALSE is not seeking special treatment. We are only asking that a company that could compete effectively in a totally deregulated market should be treated equitably in a regime that continues to be based on the desire to artificially support the beet sector. This equity extends to margin and supply of sugar for refining. Indeed, in delivering equity, we are simply asking for the Commission to deliver on its previous assurances to the refining sector that “the Community refining sector can maintain its competitiveness under fair conditions”.

3. Concurrent/Off Crop Refining

The supplementary evidence provided by British Sugar fails to disclose the cross subsidy available from processing of the beet quota itself. The beet processors’ fixed costs are already covered by the artificial support provided by the beet regime. A simple comparison of the respective efficiency of refining imported sugar in a beet factory or a cane refinery can only be done if all variable and fixed costs are brought into the picture. Comparison must take into account the cross subsidy.

4. Margin

There can be no denying the fact that the cane refiners’ margin has been reduced to €44. This is significantly below the operating costs of TALSE and was covered in greater detail in the earlier written and oral evidence.

5. Competing in a Deregulated Market

The comparison between the cost of importing sugar for refining in the country of consumption and the alternative of importing a range of refined products for consumption in that same market contains many elements, some of which would be unique to the operation in question. eg Shipping routes used, the type of ships used, bagging, and handling of refined product at import destination. The detailed figures are not straightforward and would always be the subject of careful scrutiny and evaluation by the professional project team working on the feasibility study or final detailed project. The figures may vary from project to project but the expansion of destination refineries in countries of consumption and the acceptance of this international business model is proven by the number of projects which have recently been developed, enlarged, being built currently or the subject of feasibility studies. Fuller details of the expansion of this business model was given in the LMC evidence attached to TALSE’s earlier supplementary evidence.

6. Refinery Costs in Other World Refineries

The data provided by British Sugar is not backed up by spreadsheets or even the raw cost data for the refineries used in the comparison. This makes it very difficult to provide informed comment. TALSE can only conclude from the general nature of the figures that perhaps like for like comparisons have not consistently been made. For example TALSE is familiar with the costs of the Jeddah refinery in which it has a 10% shareholding; it was designed by Tate & Lyle and the project management was undertaken by a 50/50 joint venture company, Booker Tate. In the limited time available TALSE asked LMC International, the leading independent provider of economic analysis and advice to the sugar and sweetener sector, to use its own knowledge of Jeddah refining costs and adjust these to take account of the circumstances under which the UK refinery operates ie like for like benchmarking eg EU’s statutory import arrangements prevent the use of VHP (Very High Polling) sugar for refining which if available would significantly reduce the cost of capital, labour and energy at Thames; Jeddah has high levels of capacity utilisation because access to raw sugar is unconstrained; it operates in a relatively low wage economy; and it has access to extremely cheap oil. When brought to a like for like basis the Jeddah costs of just below $50 (€42) rise to a UK cost equivalent of somewhere in the region of $120 (€102). It is the latter figure which is important in the context of the EU Sugar Regime and in international cost comparisons. The full report is attached as Appendix I. 36

7. Competition Between Beet Processors and Cane Refiners for Sugar for Refining.

The base business of the beet processors is to process their beet quotas and cover their fixed costs. The base business of the cane refiner is to refine a quantity of sugar for refining (the refiners do not have an equivalent to a quota) and cover their fixed costs. Thereafter the two businesses should be able to compete with each other for supplies of sugar for refining on a variable cost basis. The above five factors (paragraphs 3 to 7) are dealt with in more detail below.

36 Not printed.
Section I

Supply of sugar for refining

8. Refining is a high fixed costs business. The Thames Refinery is currently generally recognised to have a capacity of about 1.3 million tonnes. However, it actually has a capacity of 1.5 million tonnes and could run at this level permanently with only minor technical adjustments and expenditure. The main expenditure would be on packaging equipment, not basic refining equipment. Therefore the refinery is essentially forced to run at 75% of capacity. The British Government and European Commission have always been sensitive to the capacity utilisation issues because of their effect on unit costs and margin requirement. Equally the authorities, since the UK joined the EU and the Sugar Protocol was established, have always been conscious of the inbuilt subsidy provided by the regime to any beet processor, taking sugar for refining in a beet factory, from the restricted supply of imported sugar. In recognition of this a scheme was run for many years by the EU to cancel out the acknowledged subsidy.

9. Without the benefit of the cross subsidy it is doubtful that any concurrent/off crop refining would take place at the level of the proposed EU reference price. Also the thrust of the reform proposal is to eliminate a target quantity of beet production, close beet factories and reduce exports to a maximum of 1.3 million tonnes, or eliminate them altogether. Beet factories entering concurrent/off crop refining would counter EU policy by stretching artificially the life of a beet factory by the use of the cross subsidy.

Section II

EU Supply/demand balance: beet volume versus import volume

10. The refiners do not enjoy complete protection from supply cuts; indeed they have never had anything equivalent to a quota in the first place. TALSE has already closed five of its original six refineries at no financial cost to the EU or the consumer. TALSE and its employees have already made very significant sacrifices in financial and human terms during the period when beet has expanded since the regime was first established in 1968. A further reduction in sugar for refining arbitrarily imposed by the EU would simply result in TALSE being an unprofitable business in spite of being an industry able to compete effectively in a deregulated market. Also, TALSE may have to compete for restricted raw sugar supplies against other companies which under a new EU definition may be classed as full time refiners only for the purposes of the regime. On the other hand, British Sugar will not have competition from other companies for its future beet supplies. This will enable it to keep premia to the minimum possible level required to attract farmers to supply beet rather than go into alternative crops. The refiners will have even greater competition than at present for raw supplies.

11. Also, British Sugar is not suffering a quota cut as such. It will have a choice of two commercial alternatives if its raw material supply should be insufficient. As a result of its negotiations with beet growers it can either go to the restructuring fund and close a plant or pay an increased price for beet which is sufficiently attractive compared to the price achievable by farmers for alternative crops. Neither of these choices is open to the refiner. Also British Sugar will have the possibility of purchasing extra quota. The options available to beet processors compared to full time refiners are summarised in Appendix II.

12. If the supply of imported sugar to the refiners were to be reduced this would, in certain cases, involve the EU being in breach of international import obligations while in other cases result in the reduction in the financial expectations of ACP and LDC suppliers currently benefiting from additional import opportunities given to them by the EU on a concessionary basis.

13. In a three year period to 2009 the arrangements differ from those that will apply from after 2009 when duty free and quota free access for LDC sugar comes into effect. It is essential to look at the development of the EU market for refining over the full nine year span of the new regime. The LDC's claim that at the current proposed price only 300,000 tonnes of additional sugar will become available. On the other hand the Commission regularly points to 2.2 million tonnes of additional sugar being available in 20011–12. British Sugar puts the figure at 2 to 4 million tonnes per year. This range of figures underlines the market uncertainties and political posturing. In addition British Sugar has aligned itself with the European Beet Lobby which is lobbying hard for severe restrictions to be placed on these LDC imports. This continuing doubt and controversy over the ultimate level of sugar available for refining runs counter to the declared wish of the Commission to provide the whole EU sugar industry with a long-term financial perspective with known conditions and where sound investment and strategic decisions can be made. It is against this background that the Commission is attempting to provide some sort of supply assurance or stability for refining after 2009.
SECTION III

Refining margin

14. British Sugar feels that the institutional margin of €44 should enable TALSE to cover its fixed and variable costs and make an acceptable return on capital. This is simply not the case. In fact, the €44 margin in the proposals is significantly below the operating costs of TALSE whilst the €180 afforded to beet processors would allow an efficient processor to cover fixed and variable costs as well as make an acceptable return on capital employed in the business.

15. It is extremely difficult to try to reconcile the many figures quoted by British Sugar in regard to margin. Without full access to the spreadsheets and the Confidential Appendices one can only assume that there could be some sort of miscalculation of the figures used or that the analysis of the net margins can only have been based on an expectation of a significant market premium over the reference price. The latter is not thought to be the case given the assurances which seem to have been given to the sugar using industries in regard to how the market price will relate to the reference price in the reformed regime. In particular Note 2 of Annex I refers to worksheets. If any of those should be some of the Commission’s working documents then it must be noted that these themselves are the subject of ongoing questioning by several parties.

SECTION IV

Competing in a fully deregulated market

16. The figures here would benefit from a greater transparency. The white/raw differential used has not been reduced to account for a conversion factor of raw sugar to white sugar equivalent. This conversion process was explained in the earlier evidence given to the Committee by TALSE (it is not clear how this has been taken into account in other parts of the exercise where this adjustment is essential in examining and comparing refining margins). The analysis has chosen to assume Brazilian white sugar. However, no account has been taken of the premium that would be payable to secure white sugar of EU quality from Brazil. This is because the LIFFE futures contracts represents sugar of lower quality than that from the EU. The premium over the LIFFE price of sugar of EU quality has typically been $20 (€17) per tonne over the last five years. This would raise the differential to the full time destination refiner by the equivalent amount. The shipping differential is based on the comparison of 50kg bags with bulk raw sugar. However, no EU customer of TALSE accepts delivery of 50kg bags. This form of packing is generally only acceptable in developing country markets such as Africa and the former Soviet Union. EU customers require many sophisticated product, packaging and delivery service permutations. These usually can only be serviced by shipping in containers or having expensive storage and repacking operations at the port of import which have capital and variable costs far in excess of the $10 assumption in the paper.

17. As set out in the executive summary these figures have to be looked at on a project by project basis by the professionals involved in the feasibility study. These figures must be specific to the project in hand and subject to sensitivity analysis. It is therefore not out of order for €100 to €110 per tonne to be regarded as the sort of margin level which would be available to a destination refiner in a totally deregulated market—see Appendix III.

SECTION V

World market refinery costs

18. There are a number of references to world market refining costs taken from LMC studies throughout the document but once again TALSE has no option but to accept that these are unchallengeable and have been made so by being included in a confidential Annex.

19. When attempting refining cost comparisons it is essential to compare like with like. In paragraph 6 TALSE drew attention to work done by LMC to benchmark the Jeddah refinery with the Thames operation. These demonstrate British Sugar’s flawed methodology and it is almost certain that analysis of other refineries would give conclusions/comparisons similar to the Jeddah exercise.

20. It is also claimed that TALSE could use its spare capacity for toll refining. This is the process of importing world market priced raw sugar, refining it, and re-exporting the white sugar to importing countries. This is in fact done on a very limited scale at the moment if market conditions permit it. However, this can rarely be the case because the process involves the freight charge of importing raws as well as the freight charge for exporting the resulting refined sugar for direct consumption.
APPENDIX II

OPTIONS AVAILABLE TO BEET PROCESSORS COMPARED TO FULL TIME REFINERS

<table>
<thead>
<tr>
<th>Options</th>
<th>Beet Processors</th>
<th>Full Time Refiners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of extra quota</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Access to Restructuring Fund</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Concurrent/Off Crop Refining</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Biofuel Production in the Future</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

APPENDIX III

MARGIN AVAILABLE IN A TOTALLY DEREGULATED MARKET

The British Sugar evidence includes a table that attempts to enumerate the total refining margin available in a deregulated market. Tate & Lyle had previously submitted a similar calculation to the Committee in our previous supplementary evidence. However, for the avoidance of doubt, the table below restates this calculation using the format in the British Sugar evidence. The premium required to secure Brazilian white sugar of EU quality, the need to ship in containers rather than 50kg bags, and the correct conversion of the white raw differential to a white basis are the three key differences. The calculation yields a potential margin for a destination refiner of $127—around €100 to €110 per tonne.

\[
\begin{align*}
\text{S/tonne} \\
\text{Raw/White Sugar Price Differential (1)} & \quad 45 \\
\text{Less Freight Discount (Santos Freight Differential)} & \quad (13) \\
\text{Premium to secure EU quality white sugar} & \quad 20 \\
\text{Shipping Costs Differential} & \quad 55 \\
\text{Unloading Costs Differential} & \quad 20 \\
\text{Total available refining margin} & \quad 127 (2)
\end{align*}
\]

Notes

(1) Includes the conversion of the raw sugar price to a white sugar equivalent, as explained in previous TALSE evidence to the Committee.

(2) Around €100 to €110 per tonne at current exchange rates.

Tate & Lyle Sugars, Europe

November 2005