

COMPETITION AND MARKETING

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Introduction - The Sugar Protocol

The Sugar Protocol is designed to facilitate commercial trade between sugar producers in the ACP countries and sugar users in the EEC. It recognises the need for cane sugar in the developed countries and provides a framework to satisfy this need to the mutual advantage of both producers and users. It is not a form of aid, but the recognition of a commercial demand for cane sugar in the EEC to be met by longstanding trading partners. It therefore requires an ongoing life, but will only survive if it takes proper account of the EEC market places which are the end of the chain from cane field to consumer.

1. MARKET AVAILABILITY

First, market availability. The EEC is a market of over 9.5m tonnes. Consumption by countries is as follows :-

	m. tonnes white value
Denmark	.230
Germany	2.125
France - mainland	1.965
- overseas depts.	.030
Greece	.290
Ireland	.145
Italy	1.650
Holland	.710
Belgium/Luxembourg	.290
United Kingdom	2.250
	<hr/>
Total	9.685
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Apart from UK, all EEC countries are self-sufficient in sugar and most have significant surpluses, as shown in this comparison of consumption with average beet production for the four years ended 1982/83 :-

	<u>Consumption</u>	<u>Beet Production</u>	<u>Surplus/ (Deficit)</u>
			m. tonnes white value
Denmark	.230	.474	.244
Germany	2.125	3.061	.936
France - mainland	1.965	4.358	2.393
- overseas	.030	.319	.289
Greece	.290	.271	(.019)
Ireland	.145	.177	.032
Italy	1.650	1.643	(.007)
Holland	.710	.976	.266
Belgium/Luxembourg	.290	.960	.670
United Kingdom	2.250	1.193	(1.057)
	-----	-----	-----
Total	9.685	13.432	3.747
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It will be seen that apart from small deficits in Greece and Italy, the only market with a real opportunity for ACP sugar is the UK. The deficit between UK consumption and beet sugar production does not exactly represent the market available to ACP sugar because some beet sugar is exported by British Sugar and the deficit is partly filled by imports of beet sugar from Eire into Ulster, and from mainland Europe into England.

DOM Sugars

The surplus of 0.289m. tonnes shown as France - overseas is cane sugar produced in Réunion in the Indian Ocean and Guadeloupe in the French Antilles. A surplus used also to be produced in Martinique. Traditionally, sugar from France overseas has been sold to cane refineries in France at Marseille, Bordeaux and Nantes, where it has been mainly used for making cubes. Because of the distance of the refineries from the beet growing areas of northern France and the premiums obtainable in France on cubes, the refineries have so far managed to survive against very strong competition from beet. Their profitability has come under increasing pressure from beet and so they have looked for a cheaper source of raw sugar. To some extent they have found this by switching part of their purchases to ACP supplies.

When sugar entered the Common Agricultural Policy, France negotiated a quota for DOM (Départements d'Outre Mer) sugars. It also negotiated a special price, partly subsidised by the French Government, at present about £12 per tonne higher than the ACP price. To-day, the French market

will not stand prices necessary for the refiners to recover the DOM price on all their production, and some 150,000 tonnes of raw sugar have been switched to ACP suppliers. The current position is approximately:-

<u>Refinery</u>	<u>Capacity</u>	<u>Production</u>
Marseille	210	190,000 tonnes white
Nantes	80	75 value
Bordeaux	80	60
	—	—
Total	370	325
	—	—

The raw sugar supply to the French refiners is:-

DOM	165,000 tonnes white value
ACP	160
	—
Total	325
	—

Disposal of DOM sugar is :-

Domestic consumption	30,000 tonnes white
French refiners	165 value
World market	124
	—
Total	319
	—

Greece and Italy

It is also worth examining the small deficits shown previously for Greece and Italy. These were calculated by comparing consumption with the four years' production average. In each year they were:-

	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	
					000's tonnes white value
Greece	3	(116)	33	5	
Italy	(88)	129	398	(467)	

1980/81 was the last year before Greece joined the EEC. Farmers were finding it more profitable to grow maize and it seemed it might be possible to persuade the Greeks to make good the deficit by buying ACP raw sugar and refining it

outside the beet campaign. But Greece obtained an EEC beet sugar quota in excess of domestic consumption and the protected price for this has ensured that farmers have grown enough beet to meet sugar consumption. Any opportunity for ACP sugar in Greece now seems very unlikely.

Production in Italy is very variable, largely because of climate. In the past Italy has bought DOM sugars for refining in beet factories. This has not been very satisfactory and generally deficits have been made good by importing other EEC whites. From time to time it may be possible to make opportunistic sales of ACP sugar to Italy, but it is important not to disrupt regular markets for this.

United Kingdom

We need to examine the figures given above to reach a view about future opportunities for ACP sugar in UK. To-day, total demand is probably slightly in excess of 2.25m. tonnes. Precise figures are difficult to obtain because there are delays in getting import figures and one has to estimate changes in industrial users' stock levels, and those of shops and housewives. Generally, the market is in slight decline because of a constant barrage of anti-sugar propaganda by health fanatics. This decline is perhaps 10 - 20,000 tonnes per annum.

Excluding the last campaign which was exceptionally successful, beet sugar production in UK averaged 1.093m. tonnes during the 4 years ended 1981/82, which were better than average climatically. The ten year average yield of sugar from beet has never been higher than 5 tonnes per ha. On an area of 210,000 ha. annual average production would thus be 1.05m. tonnes sugar.

There are two reasons why beet sugar is imported into the UK. The first is Ulster, where sugar refined in England or Scotland has to pay freight across the Irish Sea, and is therefore less competitive than beet sugar produced in Eire. Some 25,000 tonnes of white sugar therefore come over the border into Ulster annually. The second is that industrial users in the UK generally require three sources in order to safeguard their supplies under all circumstances, and to ensure price competition. Imports have been greatly helped recently by distortions in currency and export restitutions. They have been running at about 120,000 tonnes annually. Given the recent decline in the value of sterling much of this fortuitous aid to EEC imports has gone, and we hope that in the longer term UK imports (including Ulster) will not exceed 100,000 tonnes.

Given the figures just described, the opportunity for ACP sugar in the UK market becomes :-

UK market		2.25m. tonnes white
<u>Less</u> Home Grown Beet	1.05m.	value
Imported Beet	.10	
	—————	1.15
		—————
UK opportunity for		1.10m.
ACP sugar		—————

All these figures are approximate and will vary from year to year. An adequate market for ACP sugar has been ensured in the past by exporting surplus white sugar. This year, with a record UK beet crop of 1.42m. tonnes, British Sugar are believed to be exporting or carrying forward some 400,000 tonnes of white sugar, thereby leaving an adequate ACP market.

Direct Consumption Sugars

Some 30 - 35,000 tonnes of ACP sugar are entering the EEC as direct consumption sugars. These are mainly of three types - raw sugar sold to a limited but zealous band of fanatics through the health shops, demerara type special brown sugars and semi-refined sugars, marketed cleverly as 'golden granulated'.

These sugars have successfully attracted substantial premiums over bulk raw sugar, and several ACP producers have asked whether their revenues would be increased if more of their supplies were sold for direct consumption, rather than as raw sugar for refining. There are two very important considerations. First, the market for these sugars is very small and any increase would almost certainly erode current premiums. Second, any increase would undoubtedly be at the expense of the UK and French refiners. Refineries are only profitable when operated near to capacity. There is a danger if sales of these sugars increased very much, not only would the premiums be eroded, but some refineries would shut down and the major markets in the EEC for raw sugar for refining would be seriously reduced.

Summary

Between France, the UK and existing direct consumption sugar, there is a market for all agreed Lomé quantities:-

	m. tonnes white value
France	.160
UK	1.100
Direct Consumption	.033

Total	1.293

If there were any further modest contraction of the opportunity for ACP sugar caused by a reduction in the total UK market, or possibly by failure to reduce imports, this could probably be taken up by further replacement of DOM sugars to French refiners. Longer term, there may be some opportunity in Portugal, when she joins the EEC.

Portugal

Consumption in Portugal is about 300,000 tonnes, all produced from world market cane sugar, bought at the lowest price. There are four refineries:-

	000 tonnes white value
Porto - 2 refineries owned by RAR	135
Lisbon - Sidul refinery	80
- Sores refinery	85

	300

The situation after Portugal's entry into the EEC is unclear, but part of the demand might possibly be met by establishing a beet industry and by importing beet from France or Spain. This might be the picture:-

	000 tonnes white value
Portugese grown beet	65
Imported beet	115
Refined sugar	120
	—
	300
	—

Portugal will probably seek raw sugar supplies by asking for an increase in total agreed quantities under the Sugar Protocol. This has so far met firm resistance from officials in the EEC agricultural directorate (DGVI) but it could change as negotiations for Portugese entry proceed.

Conclusion

Unless there are dramatic changes, the UK and French markets appear to offer a safe home for ACP sugar, and the EEC side of the contracts under the Sugar Protocol will be honoured. If anything goes wrong, Portugal's entry should provide a further home for any developing surplus.

2. PRICING - QUOTAS

The EEC market gives producers price protection, guaranteeing a floor price for defined quantities agreed as country quotas. These are in two parts - 'A' quota which was originally designed to meet 105% of consumption in each country, and 'B' quota to ensure a sufficient beet area so that consumption was met, even in poor crop years. Country by country, 'A' quotas have become somewhat out of line with consumption, and while together they equal consumption approximately, they are considerably higher if agreed quantities under the Protocol are taken into account. This is the position :-

<u>Country</u>	<u>Consumption</u>	<u>Quota A</u>
		m. tonnes white value
Denmark	.230	.328
Germany	2.125	1.990
France - Mainland	1.965	2.530
- DOM	.030	.466
Greece	.290	.290
Ireland	.145	.182
Italy	1.650	1.320
Holland	.710	.690
Belgium/Luxembourg	.290	.680
United Kingdom	2.250	1.040
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	9.685	9.516
Sugar Protocol		
- Agreed Quantities		1.305
	<hr/>	<hr/>
Totals	9.685	10.821
	<hr/>	<hr/>

'B' quotas are a percentage of 'A', and in allocating quotas to different countries the Commission has taken account of their ability to produce. This has caused percentages to vary from 10% for DOMs, Greece, Ireland and UK to 30% for Denmark, Germany and France.

If EEC countries produce more than their total quota, the excess ('C' sugar) cannot be sold in the EEC during the crop year of its production. It must either be exported to the world market at whatever price is achievable, or carried forward to the following crop year for sale in the EEC as quota sugar, but within the total quotas of that year. Quota restrictions have not been seriously detrimental to production as shown by the following production and quota

comparisons for the four years to 1983:-

<u>Country</u>	<u>Average Production</u>	<u>Total of A & B Quotas</u>	<u>Production Surplus/ (Deficiency)</u>
			m. tonnes white value
Denmark	.474	.425	.049
Germany	3.061	2.602	.459
France - Mainland	4.358	3.289	1.069
- DOM	.319	.513	(.194)
Greece	.271	.319	(.048)
Ireland	.177	.200	(.023)
Italy	1.643	1.568	.075
Holland	.976	.872	.104
Belgium/ Luxembourg	.960	.826	.134
United Kingdom	1.193	1.144	.049
	-----	-----	-----
	13.432	11.758	1.674
Sugar Protocol - Agreed Quantities	1.305		1.305
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	14.737	11.758	2.979
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Intervention and Threshold Prices

Protection given to EEC quota production is by an intervention price. This is fixed for each crop year (1 July to 30 June). If producers cannot sell any part of their quota sugar commercially at or above the intervention price, they may require the intervention authorities to buy it at the intervention price. Alternatively the Commission may let producers export it to the world market, and reconstitute the difference between intervention and world market prices. In practice, sugar is almost never sold to intervention and nearly all the surplus is exported with restitution.

The cost of restituting exported quota sugar is recovered by a levy on sugar production. This is fixed at 2% on all quota production with any balance required levied on quota 'B', but with a maximum quota 'B' levy in any one year of 37¹/₂%. Costs of restitution not fully recovered by levy one year are carried forward to future years. This system was designed to ensure that the costs of surplus sugar production were borne by producers and consumers, rather than

by tax payers. Because of the very high cost of export restitutions the maximum levy has been very much below the cost, and producers have not been fully exposed to the effects of over-production.

To protect EEC quota sugar from competition a threshold price is fixed for each quota year at a level higher than any price likely to be met in the Community in a normal year. A levy of the difference between threshold price and world price is charged on all imported sugar. This effectively excludes all world sugar from the EEC, except DOM sugar which comes under the EEC internal regime, and ACP sugar, which is exempt from levy up to the quantities specified in the Protocol.

European Currency Units

Agricultural prices in the EEC apply to all members and cannot easily be fixed in any particular national currency (francs, marks, pounds etc). Instead they are fixed in an international currency, European Currency Units (ECUs). The ECU's value is determined by a basket of actual currencies in fixed proportions. Each (francs, pounds, marks etc) has a 'green rate' which is related to the ECU by a fixed conversion factor. The factors currently in use are :-

<u>Green Currency</u>	<u>Green Currency :</u> <u>ECU's Conversion</u> <u>Factor</u>	<u>ECU's : Green</u> <u>Currency Conversion</u> <u>Factor</u>
Danish Kroner	0.12145	8.23400
German Mark	0.38831	2.57524
French Franc	0.16140	6.19564
Greek Drachma	0.01397	71.56190
Irish Punt	1.44715	0.69101
Italian Lire	0.00077	1,289.00000
Dutch Guilder	0.36289	2.75563
Belgian Franc	0.02327	42.97720
UK Pound	1.61641	0.61865

Here is an example :-

Assume for convenience sugar price fixed at 1,000 ECUs/Tonne (Actual support price per tonne is 556.6 ECUs).

Price converted to French francs at green rate:

$$1,000 \times 6.19564 = \underline{6196} \text{ French francs}$$

Price converted to UK pounds at green rate:

$$1,000 \times 0.61865 = \underline{\pounds 618.65}$$

Fixed rate between pound and franc assumed by green rates

$$\frac{6.19564}{0.61865} \text{ gives } \underline{10.015} \text{ French francs} = \pounds 1$$

If the system worked perfectly, a French producer who wished to sell 1 tonne in the UK would get 1,000 ECUs. The UK customer would pay £618.65 and the French supplier convert pounds to francs at the fixed rate of 10.015 francs - £1, receiving the French equivalent of the ECU price, 6196 French francs.

In practice currencies do not maintain a fixed exchange rate: the real rates vary continuously following the relative economic strength of the currencies concerned. The value of transactions calculated in 'green' currencies by applying the conversion factors will not therefore agree with the actual value of transactions converted at real rates of exchange. To remove the differences between real and 'green' values an adjustment is required, the Monetary Compensatory Amount (MCA). Each week the actual value of each European currency is calculated in relation to the average rate of the basket of European currencies on which the ECU is based. If the rate required to convert the actual value of a currency differs from the green rate, an MCA may be introduced.

It is possible to imagine MCAs compensating exactly for differences between 'green' and actual exchange rates, as follows:-

The Ideal

Recapitulation:

Sugar Price	Assume	1,000 ECU's/tonne
Price in French francs	(x 6.19579)	6,196 French francs
Price in Pounds	(x 0.61865)	£618.65
Fixed rate of exchange		£1=10.015 French francs

Assume

Actual rate of exchange £1=11 French francs
 Caused by:

	<u>Green Rate</u> <u>to 1ECU</u>	<u>Actual Rate</u> <u>to 1ECU</u>	<u>Appreciation (+)</u> <u>or Depreciation (-)</u>
French Franc A	0.16140	0.15	- 7.6%
Pound B	1.61641	1.65	+ 2.0358%
Rate B/A	10.015	11.000	

Result

French seller of 1 tonne of sugar receives:	
Price in pounds at green rate = £618.65	
Converted to francs at £1 = 11.000 francs	= FF 6,805
Seller at green rate should receive	6,196
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Excess receipts due to currency movement	609
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Correct by

Paying MCA on Depreciation in French Franc:	
6,196 FF @ 7.6%	= 471
Paying MCA on Appreciation in UK £:	
£618.65 @ 2.0358% = £12.5945 @ £1 = 11FF	= 138
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Total MCA Compensation	609
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Because frequent changes in MCAs would be difficult to administer, the system does not work exactly. If a currency depreciates, the first 1½% is ignored, and no MCA is introduced until it exceeds 1½%. If it appreciates, the first 1% is ignored, and an MCA is only introduced when appreciation exceeds 1%. We can now see how the exact MCA would be calculated in practice:

	<u>Green</u>	<u>Actual</u>	<u>%</u>		<u>%</u>
	<u>Rate</u>	<u>Rate</u>	<u>Appreciation (+)</u>	<u>Franchise</u>	<u>MCA</u>
	<u>to LECU</u>	<u>to LECU</u>	<u>or Depreciation (-)</u>		
French Franc	0.16140	0.15	- 7.6%	1.5%	- 6.1%
					<hr/>
Pound	1.61641	1.65	+ 2.0358%	1.0%	+ 1.0358%
					<hr/>

Compensation

Pay MCA on Depreciation in French Franc	
6.196 FF @ 6.1%	= 378
Pay MCA on Appreciation in UK £	
£618.65 @ 1.0358% = £6.408 @ £1 = 11FF	= 70
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Total MCA Compensation	448

Distortion

Received by French seller:	FF
1 tonne of sugar at UK green rate £618.65	
Converted to French francs @ £1 = 11FF	6,805
<u>Less</u> MCA paid, as above	448
	<hr/>
Receipt due at French green rate	6,357
	6,196
	<hr/>
Distortion	161
	<hr/>

During periods when sterling has been strong and other currencies such as the Danish kroner and Dutch guilder weak, this distortion has given producers in Denmark and Holland an unfair advantage in the UK.

There is a further imperfection in the system. The MCA for any week is calculated on the average actual exchange rates of 5 working days ended on Tuesday of the previous week. This can cause further distortion if the exchange rates move significantly between the period of calculation, and the week in which applied, as follows:

Assume

	<u>Green</u> <u>Rate</u> <u>to LECU</u>	<u>MCA</u> <u>Rate</u> <u>to LECU</u>	<u>Transaction</u> <u>Rate</u> <u>To LECU</u>	<u>Transaction</u> <u>Appreciation (+)</u> <u>Depreciation (-)</u>	<u>Fran-</u> <u>chise</u>	<u>%</u> <u>MCA</u>
F Franc	0.16140	0.15	0.145	- 11.3103	1.5%	-9.8103
Pound	1.61641	1.65	1.6675	+ 3.0639	1.0%	+2.0639
£ = FF	10.015	11.000	11.500			

MCA if Calculated at Transaction Exchange Rate:	FF
Pay MCA on Depreciation in French Franc	
6.196 FF @ 9.8103%	608
Pay MCA on Appreciation in UK £	
£618.65 @ £2.0639% = £12.7683 @ £1 = FF 11.5	147
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MCA Required	755
Actual MCA	448
	<hr/>
Distortion Caused by Changes After MCA Established	307
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Taking the overall benefit of MCA distortions to continental sellers in the UK, at 10 April 1983 the Dutch would have benefited by £11.1 per tonne and the French by £11.9 per tonne. These figures vary from week to week, and can become disincentives to sell to UK. However, in periods when sterling is relatively strong and other European currencies relatively weak, the balance of advantage lies with mainland exporters to UK.

The extent to which MCAs properly compensate for differences between actual exchange rates and green rates can be seen as follows:

<u>Currency</u>	<u>Green Value in ECU's</u>	<u>MCA %</u>	<u>Implied Actual Value in ECU's</u>	<u>Exchange Rate Value in ECU's</u>
Danish Kroner	0.121	+ 1.3	0.123	0.124
German Mark	0.388	+13.0	0.446	0.442
French Franc	0.161	- 8.1	0.149	0.147
Greek Drachma	0.014	- 6.1	0.013	0.013
Irish Punt	1.447	- 2.3	1.414	1.396
Italian Lire(100)	0.077	- 2.5	0.075	0.074
Dutch Guilder	0.363	+ 8.4	0.396	0.393
Belgian Franc	0.023	- 1.7	0.023	0.022
UK Pound	1.616	+ 3.1	1.668	1.690

Intervention Price

The intervention price is fixed in ECUs. It is the price of bulk sugar loaded into a tanker at the factory and excludes the costs of both packing and distribution. To recover these costs, actual EEC prices are higher than this. EEC beet sugar is produced during 3-4 months but sold and consumed throughout the year. This creates high storage and finance costs. To encourage retention of sufficient sugar to the end of the year, and to give equity between early and late sellers a storage charge is levied on all beet sugar production. It is rebated each month on the sugar in storage, so that producers who keep sugar until the end of the year receive more rebate than those selling early. The levy is recovered in the price, and the total of intervention price plus storage levy can be regarded as a market support price.

These are the elements of this price:

Basic Beet Price (Basis 16% sugar)	<u>3.93</u>	ECUs/100 Kgs
Equivalent as Sugar (1000:130)	30.24	
+ Beet transport allowance	3.01	
+ Beet reception allowance	0.53	
+ Processing margin allowance	19.40	
Less Molasses Credit	<u>(1.77)</u>	
= Intervention Price for White Sugar	51.41	
+ Storage Levy	<u>4.25</u>	
 = Market Support Price	 55.66	

The price to manufacturers may be up to 10 ECUs and to retailers 20 ECUs higher than the market support price, to cover delivery, packing and sales expenses. The actual amount depends on sugar grade, type of pack and delivery distance.

The beet price (30.24 ECUs) and processing margin allowance (19.40 ECUs) are very nearly on the ratio of 60:40. This is the basis of price division between farmers and factories. It has already been mentioned that the net sugar price depends on what proportion is 'A' quota paying a levy of 2%, 'B' quota with total levy of up to 39¹/₂%, and 'C' sugar which only attracts the world price. To give farmers security many beet factories negotiate an average beet price, regardless of whether beets are 'A', 'B', or 'C' quota. British Sugar have negotiated the mixed price system for the first time for the 1983/84 campaign.

Because the UK is considered a deficit market, a regional premium is added to the intervention price to encourage production up to quota level, as follows:

Intervention price in mainland EEC	51.41	ECUs/100 kgs
Add UK regional premium	1.21	
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UK Intervention price	52.62	
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The UK sugar price on a comparable basis is normally higher than the UK intervention price because of freight protection accorded by the cost to mainland producers of shipping sugar across the North Sea or Channel. The actual premium is generally higher than the sterling value (£7.50 per tonne) of the regional premium. No arrangements exist for intervening ACP sugar, so the regional premium does not help ACP producers or refiners. It could be valuable to

British Sugar, who could in theory sell sugar surpluses into intervention and receive the higher intervention price, but they prefer to dispose of surpluses by export with restitution.

The separate intervention price for beet raw sugar is as follows:

Intervention price for white sugar	51.41 ECUs/100 kgs	
<u>Less Beet refining margin allowance</u>	4.31	
Less Raw transport allowance <u>0.76</u>	<u>5.07</u>	
Beet raw intervention price	46.34	white value
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Equivalent raw value (basis 96°)	42.63 =	ACP guaranteed price

The advantage of the EEC price regime to ACP sugar producers can be seen from this comparison between world and EEC prices:

<u>EEC Year</u>	<u>London Daily Price</u>	<u>Average ACP Realised Price</u>
1976/77	182.0 ECUs per tonne	296.1 ECUs per tonne
1977/78	144.6	312.0
1978/79	143.1	327.6
1979/80	305.0	339.6
1980/81	500.6	357.5
1981/82	280.2	391.8
1982/83	175.1	410.8

Prices have been calculated on the basis of CIF UK and ACP prices have been adjusted for market premiums and MCAs.

The margin for refining cane sugar can be calculated as follows:

Deductions from white sugar intervention price in calculating beet raw intervention price:

	Beet refining margin allowance	4.31 ECUs/100 kgs
	Raw transport allowance	0.76
<u>Add</u>	Storage levy recovered in price, but not paid on cane	4.25
		<hr/>
		9.32
		<hr/>

equals £57.66 per tonne at the green rate.

The margin for refining cane sugar at 9.32 ECUs per 100 kgs is low compared with the beet processing margin allowance of 19.40 ECUs per 100 kgs after making allowance for additional work in beet factories of extracting sugar from beets. During the period when Tate & Lyle had excess capacity the inadequacy of the margin made the company uncompetitive with British Sugar. Through savings from rationalisation and very tight cost control (sugar yields and energy consumption compare with anyone else in the world) the competitive position is improving. This will improve further as the refineries' capital programmes are implemented.

Restitution

Surplus EEC sugar is exported to the world market, and on quota sugar the difference between the EEC internal and world prices is paid to the exporter as restitution. In calculating this the internal price is adjusted for the costs from bulk sugar ex factory silo to FOB port of shipment. These include bagging, delivery calculated from a northern French factory to port and costs of loading and stevedoring. The internal price is also adjusted for any MCA applicable to the currency in which the shipment is made. The world price is the Paris terminal market price for white sugar FOB port.

It is interesting to compare the price for exporting sugar from France under restitution at 6 April 1983 with what might have been obtained by selling into intervention:

Restitution

World price FOB port	1,557	ff/tonne white
Restitution subsidy	2,500	value
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	4,057	
<u>Less</u> Costs of exporting:		
Bulk ex factory to bagged		
FOB port 304		
MCA payment	<u>279</u>	583
	<hr/>	
Net value of export under restitution	3,474	
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Intervention

Return from intervention price	3,448
<u>Less</u> cost of selling to intervention	120
	(say) <hr/>
Net value of intervention	3,328
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This shows it is generally more profitable to sell with restitution than to intervention. However, this is not always so. In recent months the Commission has been awarding restitutions which brought total receipts from export considerably below the intervention price. This appears to have reflected a policy to reduce the quantity of sugar going onto the world market during the International Sugar Agreement negotiations. As producers wish to avoid selling to intervention for political reasons - it would prove the production was unnecessary! - shortfalls in restitution have offset the freight protection in the UK market, and encouraged some low price offers.

Regional intervention premiums do not apply if sugar is exported under restitution. If British Sugar export from UK the restitution only brings their receipts to the level of the mainland intervention price, not to the UK regional intervention price. This has put pressure on UK prices, when British Sugar has produced surpluses. With Berisfords' trading background, the position seems to have eased in the face of the exceptionally large 1982/83 beet surplus.

Price Movements

Increases in EEC sugar prices have generally been below, and in some cases substantially below general inflation levels experienced, as follows:-

	<u>Institutional Price</u> <u>Increase</u> %	<u>EEC Inflation</u> <u>Previous Calendar Year</u> %
1976/77	13.9	10.8
1977/78	4.6	10.7
1978/79	2.0	7.5
1979/80	1.5	10.0
1980/81	5.3	13.9
1981/82	8.5	12.3
1982/83	9.5	10.4

These represent a squeeze on both farmers' and beet factories' margins. In some countries margin squeeze has been partly offset by increasing production and green currency devaluations, but while world prices for 'C' sugar continue at a low level, it seems reasonable to think that some farmers may now be considering alternative crops to beet, and that the period of very high EEC beet sugar production may be coming to an end.

If price increases have been lower than EEC inflation, they have been very much lower than ACP inflation, which has been fuelled until recently by increasing oil prices.

Unfortunately, ACP sugar has to compete in the EEC with very efficiently produced beet sugar, which can survive even when price increases may not be as much as producers would wish. There is no way in which EEC markets can stand a higher price for ACP sugar. Many industrial users of refined ACP sugar consider its price too high already. The brutal truth is that if ACP sugar can't live at the guaranteed price it is unlikely to find any other means of survival.

3. COMPETITION

Sources of Competition

In the UK which has been shown as much the most important market for ACP sugar, competition comes mainly from UK beet sugar, other EEC beet sugar, starch sweeteners, artificial sweeteners, and other carbohydrate foods. The effect of competition may be to reduce the UK market for ACP sugar, or the price, or both. The only answers to competition lie in availability and quality of products made from ACP sugar, reliability of supply and effective control of costs.

UK Beet Sugar

After entering the EEC Britain decided to increase beet sugar production from its then level of about 850,000 tonnes. In 'Food from Our Own Resources' production was to be expanded to 1.3m. tonnes. The quota was then 1.04m. tonnes 'A' plus 27¹/₂% 'B', a total of 1.326m. tonnes. The document coincided with the authorisation of the first part of a £300m. capital expenditure programme for British Sugar, to prepare beet factories to process the expanded crop. In the event a series of indifferent harvests followed, and until 1979/80 the industry failed to produce up to the 'A' quota. When quotas were reviewed in 1981 the UK 'B' quota was reduced to 10% giving a total of 1.144m. tonnes. This has only been produced in the exceptionally good years of 1979/80 and 1982/83. British Sugar are asking for an increase in 1985 to 1.25m. tonnes, but it seems extremely unlikely that this will be granted.

Despite strenuous campaigns by British Sugar to persuade farmers to grow more beet, they have never succeeded in increasing the area beyond 210,000 ha., and this has involved moving onto more marginal land. Although Berisford, the new owners of British Sugar, have negotiated a better beet contract which gives farmers an average price for all their production, it seems unlikely the area will expand.

Given the sizeable variations in beet production it is vital for a regular and reliable supply of sugar to British

users that the cane sugar supply does not reduce any further. There will undoubtedly be some years when UK beet sugar production will be well below 1.0m. tonnes. If it fell to 900,000 tonnes (a high figure for the years before 1979/80), cane production of 1.1m. tonnes would bring total supply to 2.0m. tonnes, leaving a shortfall of 250,000 tonnes. If UK has poor crops it is probable mainland Europe will also have smaller crops, and this quantity may not be readily available after taking account of export commitments. Even if it were it would be very difficult to meet the deficit. Many British food manufacturers rely on regular, timed deliveries of liquid sugar, and few have facilities to import even dry bulk sugar in large quantities. Nothing costs the sugar user more than to have his factory stopped for lack of raw materials. A better solution to the variable beet crops problem is for the beet quota and cane refining to stay at their present levels, and for British Sugar and Tate & Lyle to arrange exports in surplus years.

UK beet's years of expansion have seen severe price competition, as British Sugar have sought to wrest a larger market share from cane. Because of their superior institutional margin, they have succeeded in buying the market share they needed, but at considerable cost to profitability. Relative to institutional prices, net realisable prices achieved on industrial sales in UK have reduced by something like £15 per tonne during the expansion period. Greater stability has now been reached and a price war is no longer necessary to re-adjust market share. Prices must not, however, be higher than those at which continental producers are willing to sell in UK. Equally, to maintain sales volume British Sugar and Tate & Lyle must sell to food manufacturers at prices which enable the latter to compete with imports (whether sugar confectionery, or other sugar-containing products), and also to stay competitive with their products in export markets.

There are a number of uses where only cane sugar is suitable. Brewers in UK use no beet sugar, because they fear it would alter the taste of the beer. Manufacturers who require brown sugars, used to produce some biscuits and sugar confectionery, can only obtain them from cane sources. When we closed Liverpool refinery, which used to make brown sugar known as Fourths, we had to provide this at Millwall to satisfy our customers. Liquid sugar can only be made expensively from beet by dissolving granulated sugar, whereas it can be made from cane without further crystallisation.

Other EEC Beet Sugar

Competition from other EEC beet sugar comes from Ireland into Ulster, and continental Europe.

Ulster

Before EEC entry most of Ulster's sugar came from cane refineries in Greenock and Merseyside. After entry Ulster became very vulnerable to exports from Ireland, as delivery costs from Irish Sugar Company factories were much lower than the sea journey from either Greenock or Liverpool. Since EEC entry the supply to Ulster from cane refineries has reduced substantially, and from Ireland increased considerably. At great expense British Sugar has entered the Ulster market. Ulster's sources of supply in 1982 were:

From Ireland	24,000 tonnes
Scotland - cane	10
England - beet	6
	—
Total Ulster	40
	—

The Irish Sugar Company's advantage is geographical and it seems very unlikely that either British Sugar or Tate & Lyle will be able to increase their sales there.

Imports from Continental Europe

Except when currency movements are distorted by MCAs (described above), or when export restitutions fail to achieve continental intervention prices, it is generally more profitable for continental producers to sell sugar for export than to sell in UK. They have to pay North Sea or Channel freight and this cost is generally higher than the premium at which sugar can be sold here. At 20 December 1982, with the combined effects of freight, MCAs and restitution, a Danish producer selling to UK would have lost £6.1 per tonne and a Dutch producer £17.7 per tonne compared with selling for export. Sugar is imported into UK from continental Europe because a number of industrial users want a third source of supply and Denmark and Holland - traditional suppliers of food to UK - want an ongoing share of our market. They have been willing to continue this supply even when their net receipts have been less than receipts from export with restitution.

Sales from continental Europe to UK during the 1981/82 quota year were:

Denmark	62,000 tonnes
Holland	41
Germany	3
France	16
	—
Total	122
	—

Denmark and Holland are likely to seek to maintain some share of the UK market but it should be possible by sensible price competition to reduce opportunistic sales from other sources, generally brought here by brokers and dealers.

Starch Sweeteners

Starch sweeteners (glucose or isoglucose) manufactured from maize provide the main competition with sugar in the EEC. Consumption of these for food is thought to be:

	<u>Glucose</u>	<u>Isoglucose</u>	<u>Total</u>
			000 tonnes solids
Belgium/Luxembourg	35	15	50
Denmark	30	10	40
France	125	20	145
Germany	275	45	320
Greece	20	10	30
Ireland	10	-	10
Italy	95	20	115
Netherlands	80	55	135
United Kingdom	360	35	395
	—	—	—
Totals	1,030	210	1,240
	—	—	—

Glucose' share of the sweetener market expanded in the early 1970s, mainly because it was priced favourably to sugar. This has since changed, and glucose has lost some ground. In UK, in all food processes where there are technical advantages in using glucose the switch from sugar is believed to have been made already. Otherwise the choice depends on price. Political pressure from the beet lobby is likely to be enough to ensure in future the Common Agricultural Policy will price sugar competitively with glucose.

Without restrictions isoglucose would almost certainly have taken a large share of the market, particularly in the soft drinks industry. The beet lobby's representations to the Commission succeeded in restricting isoglucose production by quota to its present level of 210,000 tonnes pa. As it is largely made from an imported commodity - maize - it is understandable that production has been limited to favour indigenous beet. To meet this problem, some starch sweetener manufacturers are building plants to make starch from soft wheat grown in the EEC. No doubt when quotas are reviewed in 1985 it will be argued, to the extent that isoglucose is manufactured from crops grown in the EEC, quotas should be increased. It is not thought these arguments would find much favour, and starch sweeteners are not seen as a serious threat to sugar, at least middle term.

Artificial Sweeteners

Consumption of saccharin in the EEC has increased steadily with greater demands for low calorie foods and drinks to avoid obesity. The main growth areas have been tea and coffee and soft drinks. It has recently been developed as a table-top sweetener for sprinkling. Reliable information on saccharin consumption is very difficult to obtain, but in the UK about 150,000 tonnes sugar equivalent are thought to be sold to consumers and a similar amount used by processors, mainly soft drink manufacturers.

Saccharin's share of the market seems unlikely to increase, partly because there are doubts about its safety to health if consumed over long periods, partly because it is generally considered to have an unpleasant bitter taste, and partly because new artificial sweeteners are now coming onto the market.

The UK Food Additives and Contaminants Committee which advises the Government on food safety has recently recommended that two new artificial sweeteners, Aspartame and Acesulphame K, should be given category A clearance for sale, while saccharin should only continue to be sold with category B clearance. An attempt by the soft drinks industry to get cyclamate re-introduced was not accepted. The Committee's recommendations will be submitted to Parliament to be implemented in Autumn 1983.

Aspartame is considered to have a very good taste profile. It has two problems: it is more expensive than the equivalent sweetening power of sugar, and it is unstable in acid conditions. The price will probably restrict penetration in uses such as cheap squashes where saccharin has been a cheap ingredient. In quality diet soft drinks

price will probably not be a problem as manufacturers are looking hard for a sweetener with a better taste profile than saccharin. There, penetration will probably depend on overcoming the problem of instability in acid conditions. It is probable that Aspartame will take part of the beverage sweetener market from saccharin.

Acesulphame K is cheaper than Aspartame, although dearer than saccharin. There are doubts whether its taste profile is much better than saccharin, and it is unstable in heat conditions. Possibly it will be combined with other sweeteners to mask the bitter taste, and be sold for lower calorie and table-top, and for industrial, uses.

In general, Aspartame and Acesulphame K are seen as likely to take a substantial share of the saccharin market because they are considered safer for health, and Aspartame has a very much better taste profile. If the problem of instability in acid conditions is solved, Aspartame is likely to replace saccharin in quality soft drinks, and a pleasanter low calorie drink could take market share from part of the soft drinks market sweetened by sugar. At present this is not seen as a serious threat to the size of the UK market.

Other Carbohydrate Foods

A long term threat to sugar consumption comes from other carbohydrate foods whose increased consumption instead of sugar is now being advocated from certain medical quarters. It is argued that consumption of sugar is an important factor in causing dental caries, and that it adds calories to diet without providing essential nutrients, so that it can be dropped from diet with no adverse effect on nutrition. Doctors no longer claim sugar causes heart disease, nor that it is a cause of obesity. They simply argue that as obesity is associated with heart disease people should not consume too many calories, and other carbohydrate foods providing both calories and nutrients should be preferred to sugar.

It is very difficult to measure medical attacks' effects on sugar, but they seem to have had some influence on consumption of sugar in beverages, which in the past has reduced by about 2% p.a. Medical attacks are now being switched to processed foods containing sugar, and there must be some concern that these attacks will have an effect. However, there are some hopeful signs to counter medical propaganda thus enabling people to continue to enjoy the pleasure of sugar.

There has been a dramatic reduction in dental caries in UK. This is thought to be partly due in some areas to treatment of water with fluoride, and generally to the widespread use of toothpaste containing fluoride. A vaccine against dental caries is understood to have been produced, although the possible risk of side effects from a vaccine may be considered greater than the problems of a rapidly declining minor disease.

Regular physical exercise among younger members of UK society has greatly increased, improving the human body's metabolism and enabling more calories to be consumed. Although some members of the Government Health Education Council continue to be anti-sugar, the main thrust is towards healthy living, which should go far towards countering the preaching of the cranks.

Conclusion

ACP sugar is being sold in UK and the EEC in highly competitive markets with strong competition from other sugars, starch sweeteners, artificial sweeteners and other carbohydrate foods. To be successful ACP sugar must be sold at competitive prices, be of good quality and be produced in grades and packs which customers want, be always readily available and be backed up by first-class service in technology, administration and distribution. These are our goals in Tate & Lyle, to ensure that ACP sugar continues to meet the market need for which the Lomé Protocol exists.

Implications for ACP Producers

I have tried to give an idea of the markets available for ACP sugar, the factors which affect pricing, and the competitive forces at work. I should like to close by indicating what I see to be the implications for ACP sugar producers. When Lomé I was negotiated I was a sugar producer in Jamaica and witnessed that Government's decision to seek a lower quota under Lomé than under the Commonwealth Sugar Agreement. I have therefore seen both sides of the fence.

ACP Sugar - Highest Price

Since the introduction of the Protocol, ACP sugar has given vastly better cumulative returns to producers than world price sugar. This is particularly true to-day, and seems likely to continue to be generally true into the future, even with a new International Sugar Agreement. For this reason the Protocol justifies constant vigilance to preserve it from the unrelenting attacks of competitive interests.

ACP Guaranteed Price

Because ACP sugar is meeting a market demand within the EEC it must continue to be priced in line with changes in the EEC sugar regime. If it were to be increased by more than the institutional increases under the regime, it would cease to be competitive with beet, and the markets would disappear. When economies are strained it is tempting to look to increasing prices by means of subsidies, and a freight subsidy from ACP destinations has been suggested. First, this is very unlikely to be accepted, and second, it would be seen in the EEC as aid, and evidence that the Protocol was not viable. The harsh fact of commercial life is that producers must be able to live within the ACP price. Many can, and I know of one ACP sugar estate where if all production could be sold at 18 US cents per lb, they would make a profit of about US\$15m.

Reliability

Throughout, I have stressed the importance of reliable supply to maintain access to the EEC market. I well understand the use of strikes in resolving industrial disputes, but I would ask my trade union friends from ACP countries to recognise that any prolonged strike making the reliability of their sugar supply doubtful could well cause the market to be lost, with serious consequences for their industries. Equally I would remind producers that if when world prices are higher than EEC prices - alas, not frequently in recent years - they divert Lomé sugar to the world market, their EEC market will almost certainly have disappeared, they will lose their quota, and will pay high long term cost for short term benefit.

Direct Consumption Sugars

The attraction of selling sugar into EEC markets for direct consumption at premiums rather than selling it raw for refining is obvious. Two factors should however be borne in mind: First, in a non-expanding market any sugar sold for direct consumption is at the expense of refining. Although the direct consumption sugar market is limited, sales could increase sufficiently to force closure of another refinery. This would be at a sales volume much less than the capacity of the closed refinery as refineries must work near to capacity to be profitable. Increased direct consumption sales could thus cause loss of access to the EEC market much greater than the benefit from the increased sales. Second, if ACP suppliers seek to increase white sugar sales to EEC markets, they will be competing with continental producers who have large volumes of white sugar generally superior in quality to ACP whites available for immediate delivery. ACP producers could not possibly win this battle.

Shortfalls

Quantities of sugar produced by ACP countries will change from time to time, and occasionally there will be shortfalls not covered by 'force majeure', leading to quota reduction for those countries responsible for the shortfall. The Commission have a discretionary right to re-allocate shortfalls to other ACP states, and it is vital ACP countries ensure this is done. Otherwise the total quantity of 1.305m. tonnes under the Protocol will be slowly reduced, until the substance of the Protocol substantially disappears.

Vigilance

I believe the Protocol and commercial agreements between ACP suppliers and refiners made to implement it will continue for many years. I cannot agree there is an imminent threat to the jobs of our Thames employees. I do however agree the price of keeping the Protocol is constant vigilance by all interests concerned. Competing EEC interests - beet, starch sweetener, and artificial sweetener producers and manufacturers of other carbohydrate foods - will work constantly to attack the Protocol directly, or EEC markets which give it its raison d'être. I believe these attacks can be repulsed and the Protocol will continue but it will require close partnership at industry, trade union and Government levels between ACP supporters in Europe and ACP countries themselves. There is still much goodwill for the developing countries in Europe, and Euro MPs have shown considerable willingness to espouse the ACP cause. I know some of my ACP friends have had doubts about the British Government's support, but I believe strongly it fully supports Lomé and the Protocol, and would defend them against attack.

The Commonwealth Sugar Agreement was based on partnership between Britain and the Commonwealth sugar producing countries. Since those countries became independent that partnership has become more equal and thereby stronger. I believe to-day's sugar partnership is based on the strength of competent sellers and buyers contracting in a spirit of give and take to serve their interests best, and that this partnership will prosper and endure.