Written evidence submitted by NFU Sugar to the Environment, Food and Rural Affairs Committee inquiry on trade in sugar post-Brexit

Executive summary

- The UK homegrown sugar industry is among the most competitive in the world, and receives no specific support from EU regulations. All third countries with tariff-free access to the market, such as LDCs and ACP countries, receive the same indirect support from existing import tariff arrangements as the homegrown beet sector receives.
- Trade policy must put UK sugar beet growers on a level playing field with their international competition, meaning that it must take account of regulatory differences and subsidies to sugar industries in other supplying countries.
- Future policy must ensure sugar beet growers and the homegrown sugar industry have access to the necessary tools to succeed. These include the unique arrangements in the sector, detailed below, that help growers and the processor manage risk and drive up productivity, improving market transparency and ensuring homegrown sugar beet can access the markets that maximise the value of the crop.

Introduction

1. NFU Sugar is the single entity that represents all UK growers of sugar beet. It is a part of the National Farmers' Union, which represents 55,000 members in England and Wales, involved in 46,000 farming businesses.
2. Sugar beet is grown by over 3,000 farm businesses in the UK, mainly in East Anglia and the East Midlands.
3. Homegrown sugar supplies over half the UK domestic sugar market. The industry now has the opportunity to grow following the removal of quotas, especially given the productivity gains, such as average yield growth of 50%, made over the last 30 years[1].
4. With the remainder of the UK market supplied both by sugar imported from the EU and by sugar imported from non-EU countries and refined in the UK, trade policy is a key issue for UK sugar beet growers.
5. The sugar beet sector has unique regulatory arrangements governing the relationship between growers and the processor.

What challenges and opportunities will the UK sugar industry face from new trade arrangements with EU countries post-Brexit?

6. The UK imports more sugar from other EU countries than it exports to them. Over a quarter of the UK market was supplied by sugar imported from other EU countries in 2016/17[2].
7. The homegrown beet industry is highly competitive against other EU sugar industries, with a total cost of sugar production below the EU average[3]. As the industry is no longer subject to

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[1] Data compiled annually by British Sugar based on paid crop yield
[2] HMRC; British Sugar production data
[3] LMC cost of sugar production data

quotas, this means there is an opportunity for homegrown sugar to supply more of the domestic market.

8. We urge the government to ensure that new trade arrangements with EU countries offer reciprocal conditions for the homegrown sugar industry, both in terms of tariffs and other trade measures. We support a continued tariff-free and frictionless trading relationship with the EU being maintained after Brexit.
9. However, a change to sugar trading arrangements with the EU could result in homegrown sugar displacing some EU white sugar imports and supplying more of the UK market.
10. The UK's sugar beet seed supply would need ensuring in the event of new trade arrangements with the EU, since all the seed used in the UK is sourced from other EU countries. However, this challenge may be relatively simple to overcome either through future arrangements with the EU or using unilateral UK trade policy.

How should the deficit in sugar that will accompany the departure from the EU be filled?

11. While the UK currently consumes more sugar than it grows, homegrown production is now able to expand following the end of quotas. UK sugar beet growers will have the opportunity to competitively and sustainably supply a greater proportion of the market.
12. Historically, there has been sufficient sugar available from ACP/LDC origins to fill the deficit in the UK market[4], although the deficit has not necessarily always been filled solely by ACP/LDC sugar. In this respect, we support the continuation of programmes granting unilateral preferential access to the least developed and developing countries (e.g. GSP+ and EPAs).
13. The government must ensure that any further sugar imports entering the UK market maintain a level playing field for UK sugar beet growers. This means that trade policy must take account of:
    a. Regulatory differences in sugar production. Distortions that put UK sugar beet growers on an unlevel playing field must be taken account of, such as sugar grown in a country with access to key Plant Protection Products that are not permitted in the UK. If trade policy does not enforce the same standards and regulations as UK growers adhere to, this simply outsources the use of practices or technologies deemed unsafe in the UK and undermines our environmental objectives.
    b. Subsidies in sugar production elsewhere. UK grown sugar beet no longer receives any direct support, and must be able to compete fairly on the UK market with sugar from elsewhere also grown without subsidy. Otherwise, trade policy must take account of distortions created by subsidies elsewhere.
    c. Reciprocal export access for UK white sugar. UK white sugar exports must have at least as favourable reciprocal access to a market as that country's exports have to the UK.

How can future policy best address trends in the sugar industry such as a falling world price and decreased consumption?

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[4] ACP Sugar

14. The world sugar market is highly volatile, with prices rising and falling rapidly. World white sugar prices fell 27% during 2017, though they had risen 25% during 2016. Following the end of quotas, prices in the EU have become structurally lower as the EU moves from being a net importer of sugar to a net exporter.
15. Future domestic agricultural and sugar policy must provide the necessary risk management tools for sugar beet growers and the industry to manage this price volatility, for example, including the arrangements in the sugar beet sector and market transparency.
    a. The government must maintain the unique arrangements that exist in the sugar beet sector between growers and the sole processor, which have provided a very effective tool for managing risks and increasing productivity. These arrangements, which do not exist in the same form in any other sector, provide for the collective organisation of growers within NFU Sugar as the single representative body and provide certain safeguards to growers.
    b. Future policy should also increase market transparency in the sugar sector, which has historically been a very opaque market. It benefits all parties, including sugar beet growers, to be able to operate on a level playing field in terms of market visibility. The EU Commission has made some progress on this, but the UK government should continue to increase transparency post-Brexit, such as by publishing timely prices, balance sheets and forecasts.
16. On the world scale, total sugar consumption continues to grow steadily due to population growth[5]. However, sugar consumption in the EU is projected to decline over the next 10 years[6].
17. Future policy can best address these trends by allowing UK grown sugar beet, and its associated products and co-products, to access the markets or outlets that will maximise the value of the crop. The government must support policies that promote the use of UK sugar beet in the widest possible range of outlets, including for sugar in the domestic or export market, as well as for non-food uses such as biofuel production. This reduces the exposure of the crop to a single market where consumption is projected to fall, increasing long term certainty and supporting investment in the sector.
18. Supporting the use of UK sugar beet in the widest possible range of outlets also helps growers to manage the risks associated with a volatile market place for sugar.

What trade policies and agreements could achieve a balance between protecting domestic and infant industry, competitiveness and free trade and supporting the sugar industry in LDC and ACP countries?

19. Supporting the sugar industry in LDC and ACP countries means maintaining the value of the trade preferences offered to these sources. This means not just maintaining duty-free, tariff-free access to the UK, but also ensuring these arrangements remain preferential to the arrangements offered to other countries.
20. The domestic sugar beet industry is among the most competitive in the world[7]. The industry is well established in the East Midland and East Anglian economies, having been founded in 1912.

[5] International Sugar Organisation
[6] EU Commission medium term outlook

21. A trade policy that balances each of these interests would put homegrown sugar on a level playing field with sugar from other sources. This means that trade policy must take account of:
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What are the opportunities for export for the UK sugar beet industry post-Brexit?

22. With export restrictions on EU white sugar no longer in place, the UK sugar beet industry has a greater opportunity for export onto the world market.
23. The best value for sugar beet growers comes from the sugar and other co-products produced from their beet being able to be sold into the highest value markets, be they at home or abroad.
24. Since the end of quotas, the UK and EU markets have continued to trade at a price premium to the world market, meaning that a large amount of the sugar produced from UK sugar beet is likely to be sold in the UK or EU.
25. However, investment in export logistics by the processor allows the industry to take advantage of export opportunities as necessary.
26. The government must adopt policies that allow the UK sugar beet industry the widest possible range of outlets, which includes removing trade barriers for access to sugar deficit countries. This will provide the necessary opportunities for homegrown sugar to be sold into the markets that provide the best value for the industry, whether at home or abroad.

[7] LMC cost of sugar production data