EU Commission CAP Reform Process: A threat to ACP suppliers and EU cane refineries

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Introduction

- EU Sugar Market Overview
- Protectionism on the increase in the EU
- Makes investment in cane difficult
- EU needs to adopt a parallel and fair policy for cane and beet sector
- Without this, cane refiners and preferential suppliers are doomed

What is the future for cane in Europe?
EU Sugar Market Overview

- Cane and beet sugar have co-existed in EU market since the early 19th Century
- Current EU market demand* of circa 17.2mt
- Current internal sugar beet + isoglucose quota of 13.6mt
- Remaining 3.6mt intended to be met by imports
- Market regulated by European Commission
- Recent legislative change has driven consolidation amongst producers
- Current and proposed market legislation threatens future of cane industry

*includes isoglucose
Protectionism is on the increase in the EU
- What form does it take?

The 2006 Council Agreement

- EPA/EBA imports to reach 3.5M
- Quotas to be cut by 6M tonnes
- Prices cut by 36%
- €1.24bn of Accompanying Measures

The Reality

- Less than 2M entering EU
- Replaced by beet quota increase
- And cane imports at high duty
- Part offset by increase in beet quotas
- €5bn of aid to cut quotas
- Increase in cane refining capacity by beet processors
- EU price 57% above world price
- Risen 46% in 18 months
- Prices higher than pre-reform
- Slow to be dispersed
- Full amount not committed
- Difficult to access

Source: EU Commission
Protectionism is on the increase in the EU
- Leads to unsustainable pricing in Europe

White sugar market comparable pricing

Reference Price | World Price | EU Average Bulk Price

Source: Bloomberg & EU Commission
Protectionism is on the increase in the EU - Gifts beet processors windfall profits = concentration

Like for like margin increase of major beet processors

Source: public data
Protectionism is on the increase in the EU
- Proposal is to legislate protectionism post-2015

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<tr>
<th>Commission Proposal</th>
<th>EP Dantin Report</th>
<th>Member States</th>
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<td>Remove beet and isoglucose quotas</td>
<td>Keep quotas</td>
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<td>Keep cane refiners constrained</td>
<td>Allow automatic increase in quotas when supply of imports insufficient</td>
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<td>Keep import duties</td>
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<td>Allow Member States to pay coupled aid to beets</td>
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Protectionism is on the increase in the EU
- What does this mean for cane in Europe?

• Odds stacked increasingly heavily in favour of beet

• No more guaranteed share for cane

• Special treatment for beet industry means cane will not survive in any material way

• Businesses that produce both beet and cane will always have their main focus on beet

• Businesses that produce just cane will not survive the unfair legislation
Protectionism impacts investment in cane - Uncertain future

• Policy environment in EU increasingly hostile to cane

• Preferential suppliers have the potential to be competitive

• Trying hard – eg. 30 Tate & Lyle Sugars people embedded throughout world

• But investment that the industries need is unlikely whilst policy uncertainty remains

• Vicious downward spiral
The future for cane in Europe - Why does the EU need cane refining alongside beet?

- Bring choice and variety to consumers
- Contribute to competition
- Aid food security by having a different raw material and processing model
- Provide a stable and long-term market for preferential suppliers in the developing world
- Provide an important link to global markets
- Provide hundreds of thousands of high quality manufacturing jobs in Europe and the developing world
The future for cane in Europe
- Why does the EU need cane refining alongside beet?

The cane refining model

- Close to markets
- Processing flexibility & reliability
- First class discharging facilities
- Waterfront location
The future for cane in Europe
- What do we need?

Policy-makers must wake up and acknowledge the injustice of their proposals

Pre-2015
- Growth in preferential suppliers’ volumes
- Any gap in the 3.5M forecast should be made good by raw cane imports at zero duty
- Any increase in quota should only come after that

Post-2015
- If quotas continue to exist, cane refiners need a minimum supply of raw cane sugar to compete
- If quotas are removed, cane refiners need increased access to duty free raw material in order to compete

We believe that the interests of the cane supplier and the EU cane refiner are inextricably linked
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