[redacted]

I look forward to our meeting on Thursday . Firstly, thank you very much for the paper on the model used to calculate the effect of beet sugar quotas .It might help to lay some groundwork if I were to provide some comments on this

a) I note that DEFRA is using a new Aglink-Cosimo model with updated price data. Whilst it is helpful to include this latest information I believe the model makes no attempt to provide differentiated forecasts for the varied zones of the EU market nor does it cover any specific effects on the ACP/LDC suppliers. It is therefore limited in its ability to predict anything other than a broad picture and certainly does not address the particular issues facing either the ACP or indeed the particular problems facing the UK market .

b) I am puzzled by the 3 options selected and the production /import levels assumed within those options. The production forecasts seem at odds with EU production in recent years when actual output has been greater than food demand thus leaving zero for imports if quotas had not existed. This is without taking into consideration the possibility of much greater isoglucose production than shown in the model. The import figures seem to be focussed solely on the ACP/LDC whereas the overall import levels used in the Reform period included CXL and Balkans to give a figure of 4.6m . Subsequent to this the new FTA's with the Andes and Central Americans(which are now in force) has added c 300k and negotiations continue with others (RSA/India/Mercosur etc) This also excludes any effect of a DDA settlement and the possible impact of offsetting the rate of tariff reduction by an allowance of more duty free erga omnes imports.

c) In measuring the market implications we also have to take into account a sudden shift in the balance sheet numbers when the Commission recognised that they had made an error of 1.3m tonnes in their post Reform forecasts and the "space" for imports was only 3.1m in total (not the original 4.5m) This new arithmetic was confirmed by Lars Hoelgaard in a speech in July 2010. It accounted for the relaxed view of DG Ag to the v difficult ACP/LDC production period of 2009/11 They were concentrating on market balances and not the more important factor of market prices which Reform had brought into play. I recall having an argument with Bruno Buffaria when I expressed a view that the EU market could not work unless the internal price was at a premium to the World Price to which it was now inextricably more closely linked. Bruno protested but I still believe this to be true

d) The continuing implication in the paper that a lack of imports is the problem ignores the fact that a great deal of this is the result of the external World price pressures which destroyed swaps as a lucrative potential extra supply for LDC's(The danger of this assumption was noted in the DEFRARIA of 2005) .This accounts for a c 600/750kts per annum reduction in the EC's assumed supply. It is strange that the EU made so much effort to inhibit new LDC supply and to legislate for a means of restriction of all ACP/LDC imports until 2015 to 3.5m (inc swaps) This campaign was very successful and yet it is now apparently blaming those countries for recognising the intent and also for choosing more remunerative regional markets which is a primary objective of the EPA's

e) As indicated in a) above it is still not clear what is meant by "production if quotas are maintained". Is this total production or production eligible for sale on the EU market? The beet sugar quotas are not production limiting and at any time the Commission could have intervened to release enough sugar to satisfy demand from beet sources alone. The impact on ethanol and chemical demand for cheap supplies would have been affected but this is another issue and use of the facility to purchase imports duty free has not been used by the Chemical industry. The problems of the traditional refiners is another complication but again the actions of the Commission have contributed to the problems faced and also to the fuelling of the inevitable impact on EU prices of the supply deficit in the World Market and high world prices In all the problems faced the issue has not really been about the volume of imports but the price of alternative supplies .The comparison made in the models is very crude and fails to consider that the effect on prices of the different scenarios is very sensitive to the action of the Commission to use their powers to release or withdraw sugar to maintain market balance and also to reduce/remove duties to cater for the needs of different stakeholders.

f) The DEFRA study ignores the current capability of the Commission to release more sugar to dampen down the impact of high World Prices . Although not used as effectively and as promptly as one would have expected there is evidence that it certainly did work for a period .Whether we will now see another spike in the WP in the near future is never going to be clear but it seems remiss of the study to ignore this possibility since the ending of quotas will by definition remove the moderating tool of non quota release and controlled incremental imports.

g) If as seems to be the current conventional wisdom there is going to be a large surplus in supply post 2017 the model suggests that exports will provide the safety valve. I am not convinced that this will prove to be an easy case to make to the WTO and even less to the original complainants. However beyond this issue of legality is the effect of releasing large quantity of surplus EU sugar onto an already volatile World market. In a situation of low prices the prospect of exporting without financial assistance seems very doubtful commercial wisdom for the EU producers. For World market suppliers and even regional market producers where prices are often linked to World market prices with much lower tariff protection than exists in the EU the impact of a surge in EU exports would be very daunting If as has been predicted and is repeated in Scenario 3 the ACP/LDC are squeezed out of the EU then the loss of EU access and a simultaneous lowering of returns in alternative markets would be a very hard blow to absorb. It would be a return to the situation pre Reform when the large EU exports exerted a negative weight on the World Market It would also make a mockery of the EU(and HMG) frequent reference to the need for policy coherence

h) All recent studies have concluded that the absence of quotas will cause swings in EU production which will be higher at times of(or in years following) high World prices. This can be accommodated by the existing production capacity of the beet sector and the availability of alternative crops for growers. ACP supplies are forecast to operate inversely to these prices (although nothing is ever as neatly arranged as this in practice in industries where cane is a perennial crop ) However accepting that this will be generally true the biggest effect will be on Refiners whose ability to survive wild swings in supply is very limited . If they are forced out of business then in deficit areas such as the UK the knock on effect on industrial users will be considerable and place the at a competitive disadvantage with sugar users in surplus areas in NW Europe . Will users currently in the UK (esp international brands) be inclined to relocate to these surplus areas to secure lower cost supplies?

i) Para 14 is also to my reading very misleading as EU beet sugar production is not restricted and the Commission can call on the excess supply(4 to 5 million tonnes) at will. Belatedly they are trying to swamp the market at present and there is evidence that prices are dropping fast in deficit areas of the EU. Perversely this is not happening in areas of surplus and clearly there is activity which is against the expected norm . However this cannot in any way be attributed to insufficient imports which are well above the levels stated by Lars Hoelgaard as necessary to balance the market.

Overall I cannot support the study conclusion in para 20 that the shortfall in imports is projected to lead to EU domestic prices being on average 35% higher than would otherwise be the case. . The choice of Scenarios is curious and effectively self fulfilling .The arithmetic is frankly a bit spurious as with EU production being so much higher than quotas the Commission actions can easily avoid any such rise and with greater appreciation of the workings of the market could have done so in recent years Also as I have mentioned above the relative levels of the World Market plus recovery of production in many areas(ACP/LDC supplies in 2012/13 are forecast to be 2.3m -not 1.8 as in Scenario 2) will also have a major impact on EU prices

I appreciate that the Council decision to end quotas in Sep 2017 has now been agreed and we must look forward .It would I am sure be better if HMG Ministers did not continue to make the claim that they have somehow saved users and by implication consumers from a 35% price increase It is not correct and it is not helpful

As regards the next phase we have not yet seen the text of the new Regulation for the post 2015 period but there are issues about which we are very concerned and will be watching Not least is the existence of a Safeguard clause which is to be triggered by a 20% fall in price and will be applied to ACP/LDC supplies. This anomaly flows from the obvious(to us) belief in 2005/6 that quotas would continue after 2015 However it makes no sense to penalise ACP/LDC suppliers for a market price effect to which their supplies have made little if any contribution

We also remain surprised at the absence of any involvement of DFID in the discussions It is in direct contrast to what occurred in 2005/6 when their support proved invaluable in obtaining the AMS funds. These are now drawing to a close with some very unsatisfactory experiences and with cuts in funds which were never suffered by the EU beet sector. We would very much like to have support for at the minimum a rollover of any withheld funds for specific use of the sugar industries to assist in the original plan to improve efficiency

I look forward to seeing you

Kind Regards

Barry

PS Apologies for rambling but I wanted to get some views to you today