

British Sugar/Associated British Foods

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Ownership structure

British Sugar, the sole processor of the UK sugar beet crop (UK quota 1,056,474 tonnes), is owned by Associated British Foods (ABF), a privately owned company described as a “multinational food processing and retailing company”. The sugar interests of ABF are consolidated under the auspices of the AB Sugar (ABS) division. ABF is owned by the Weston family.

Global reach

In addition to its extensive retail and other non-sugar interests, ABF, through ABS, “operates 31 plants in 10 countries and has the capacity to produce over 5 million tonnes of sugar and 600 million litres of ethanol annually.” Its operations in the UK, Spain, China and Southern Africa (through its 51% share in Illovo Sugar) make ABF the world’s second largest producer of sugar. ABF is also involved in trading sugar through its shareholdings in Czarnikow and Mitra Sugar.

In China, ABF operates “five cane sugar mills in Guangxi Province and four beet sugar factories in the north east of the country”, where “continuous investment has raised annual sugar production capacity to over 900,000 tonnes.” However, in 2013 “profitability in China was lower than [the previous] year as a result of weak sugar prices throughout the year”.¹

Installed EU production capacity

According to ABF, British Sugar is “Europe’s most efficient processor” and the fourth largest beet sugar producer in the EU, accounting for around 9.6% of EU production. British Sugar operates four factories in the UK – Wissington, Newark, Cantley and Bury St Edmunds. Since 2007, ABF has

been developing a biofuel joint venture alongside its Wisington sugar factory with BP and DuPont (ABF 45%, BP 45%, Du Pont 10%). This joint venture operates as Vivergo Fuels Ltd and is capable of producing “around a third of the UK's bioethanol demand for petrol”.²

At the end of 2008, ABF announced the acquisition of Azucarera Ebro, the Spanish sugar business of Ebro Puleva, and the deal was finalised in 2009.³ The acquisition was based on the leading position of Azucarera in the Iberian market and the efficiency of the three northern beet processing plants, which are located at:

- Miranda de Ebro, south of Bilbao (production capacity: 82,000 tonnes);
- La Bañeza, in Leon Province (110,000 tonnes);
- Toro, in Zamora Province (141,000 tonnes).

In addition, there is a refinery at Guadalete, near the port of Cadiz, on the site of a former beet factory decommissioned as part of the EU sugar sector reform process. The Guadalete refinery is capable of processing 300,000 tonnes of raw cane sugar and 100,000 tonnes of beet. As part of the 2008 deal under which ABF acquired Azucarera, it was agreed that Illovo would be contracted to supply raw cane sugars to the refinery then being built at Guadalete.

Recent developments: Refining operations and market developments

The British Sugar factory in Newark currently has the capacity to process 30,000 tonnes of raw cane sugar “outside the campaign period”.⁴ However, an EC-commissioned 2011 evaluation of the impact of sugar reforms suggested that the raw cane sugar processing capacity of the Newark plant could reach up to 120,000 tonnes a year. This evaluation also indicated that capacity could be developed to process up to 230,000 tonnes of raw cane sugar at the Cantley factory, located 18 km from the port of Lowestoft.⁵ The Bury St Edmunds factory, meanwhile, has developed a dedicated fair-trade sugar bagging line alongside its organic sugar bagging line.

In Spain in 2012/13, according to ABF, “Spanish beet growers achieved an average yield of 108 tonnes/ha of adjusted beet, a new European record.” In the same marketing year, the company’s three beet processing factories in northern Spain were reported to have processed 95,000 tonnes of raw cane sugar, while the Guadalete refinery processed 242,000 tonnes of raw cane sugar, well within its installed refining capacity of 300,000 tonnes.¹ The 2011 EC evaluation estimated the potential raw cane sugar refining capacity of this facility at 420,000 tonnes.⁵

According to ABF’s 2013 annual report, British Sugar produced 1.15 million tonnes of sugar in 2012/2013. This was lower than the 1.32 million tonnes achieved in the 2011/12 season, largely as a consequence of poor growing conditions during 2012.¹ However, in 2013/14 the company expects to see an 11% recovery in British Sugar’s production from sugar beet, with forecast production of 1.28 million tonnes.

British Sugar’s sugar production varies depending on the area placed under sugar beet and the impact of weather on yields. Official EU figures, factoring out carry-over stocks (i.e. out-of-quota production carried over into the next year’s quota) indicate that out-of-quota production reached as high as 19.6% of the official quota (in 2011/12). While this was not sustained, the indications are that production could be 14.8% above quota in the 2013/14 season. This can be taken as indicative of additional sugar production potential after the abolition of the EU sugar production quotas.⁶

This market positioning strategy needs to be seen in the context of the British Sugar's wider European market positioning strategy and the prospect of higher EU sugar exports once WTO constraints on exports have lapsed. Export levels will, however, depend on the opportunities available on global markets, where demand for sugar is shifting towards Asia. The investments being made by ABS in raw cane sugar co-refining (the term used when sugar beet refiners produce sugar from raw cane sugar as well as from sugar beet) need to be seen in this light.

Trends in ABS raw cane sugar refining capacity: current and potential (tonnes)

Factory	Current	Potential
UK		
Newark	30,000	120,000*
Cantley	-	230,000*
Spain		
Northern Spanish beet refineries	95,000	-
Guadalete	242,000	420,000*
Total	367,000	770,000

* Agrosynergie/EC, 'Evaluation of CAP measures applied to the sugar sector', December 2011⁵

In 2011/12, high prices have meant British Sugar's sales revenues increased by 25% and operating profits increased by 62%. More recently, however, increased competition has emerged on the UK market.⁷ According to ABF, "negotiations with our EU customers regarding prices for the 2013/14 marketing year have been challenging".⁸ There has been a higher availability of sugar in the EU as a consequence of the conversion of non-quota sugar to quota, additional tariff-rate quotas for imported sugars, and low world sugar prices. In addition, competition has increased as other European producers look for new market opportunities ahead of the abolition of production quotas. This has generated a downward pressure on EU prices, with the market rapidly adjusting to the post-2017 realities.¹

Link to ACP sugar sectors

In September 2006, ABS acquired 51% of Illovo Sugar Ltd. Through Illovo, ABS plays a major role in the Southern African sugar sector. Illovo, which is Africa's largest sugar producer, has agricultural investments and factories in six countries (South Africa, Swaziland, Zambia, Malawi, Tanzania and Mozambique), with Illovo playing a wholly dominant role in the Zambian and Malawian sugar sectors.

While value-added processing is most developed in South Africa in terms of sugar-based chemical production, major developments are under way in other Southern African countries in terms of the extraction of the full value from sugar cane delivered for processing. Depending on local policy frameworks and the scope for the realisation of revenues, this includes not only production of sugar and molasses, but also ethanol, alcohol, bottled water, co-generated electricity and animal feed.

In terms of sugar production, "Illovo produces raw and refined sugar for local, regional, European and world markets from sugar cane supplied by its own agricultural operations and independent growers who supply cane to Illovo's factories." "Major capacity expansions aimed at increasing annual cane and sugar output have already been completed in Zambia and Swaziland, with further expansions under way in other countries of operation."⁹ According to Illovo's annual report for 2013, "Illovo's sugar production of 1.87 million tonnes for the financial year compared to 1.77 million tonnes" in the preceding year. This reflected "further recovery in

the South African crop and good performances from the recently expanded facilities in Swaziland and Zambia”. However, pressure on prices across the Southern African region was “expected to increase in the coming year”.¹⁰

In support of their operations in Southern Africa, British Sugar and Illovo have jointly established Mitra Sugar Ltd, which “supplies a range of European refineries with raw sugar for refining as well as direct consumption customers with speciality and refined sugars”. Mitra sources its sugars primarily from Least Developed Countries (LDCs) and EU Economic Partnership Agreement (EPA) countries, but also from “all countries with market access arrangements to the EU”.¹¹

In addition, ABS holds a 42.5% share of the Czarnikow Group. Czarnikow’s website states that its “main business activity is the trading of sugar and ethanol”.¹² The company “operates a network of 10 regional offices to service clients and customers globally” and has “commercial involvement in physical transactions in excess of 8 million tonnes of sugar each year”.¹³ This means that Czarnikow deals with “around 10% of sugar that is traded annually”.¹¹

In ACP countries in Southern Africa, ABS operates estates and mills, often alongside smallholder grower schemes and sourcing from large and medium-sized independent growers. Through Mitra and Czarnikow, ABS plays a major role in trading raw sugar and sugar products, not just involving Southern Africa, but across the ACP and beyond. Thus, through the associated companies within the ABS group, sugar production and processing takes place not only in the EU, but in some of the lowest-cost sugar production zones in the ACP, while also providing an established outlet for sugar products across the globe. ABS also controls an increasing capacity to refine raw cane sugar, in both Spain and the UK, including in some instances at very low marginal cost.

Issues and prospects

Despite a substantial reduction in profits from its sugar business in the year to September 2013 – as a result of lower EU and world market prices and the prospect of lower prices in the EU post 2017 – ABF maintains that its sugar business is one of the lowest-cost producers in the world and is therefore well placed to succeed in the changing EU market. This, however, is likely to involve the processing of higher sugar volumes at lower prices.¹ The projected decline in the profitability of ABS operations is relative, from an operating profit margin of 19.1% in 2012 and 16.2% in 2013.

The highly integrated corporate structures operated by ABF raise potential issues related to the functioning of ACP–EU sugar supply chains. The EU sugar sector has a relatively poor record in this regard. This was most recently illustrated by the German Federal Cartel Office’s fines totalling €280 million imposed on three major German sugar companies for collusion on prices and market division.¹⁴ There have been suggestions of a need for some kind of regulatory framework to provide greater transparency on price formation along ACP–EU sugar supply chains. Indeed, in the case of ABF the issue reaches beyond trade with the EU as it is well placed to tap into expanding demand for sugar in Asian markets, although it is unclear to what extent this would benefit sugar producers in Southern Africa. This suggests that establishing a regulatory framework for strengthening the functioning of sugar supply chains has a far wider relevance than simply the ACP–EU sugar trade.

The multiplicity of revenue streams now being opened up through exploiting the full potential of sugar cane processing and the growing importance of some of these revenue streams to corporate earnings raise important issues related to the pooling of proceeds from sales of sugar-cane-based products and the division of proceeds between growers and millers. Traditionally, only revenues from raw sugar and molasses were pooled before being divided between growers and millers. The arrangements for division of the proceeds may need to be revised as earnings

from sales to the EU fall post 2017. The revenue effects of the completion of EU sugar sector reforms are likely to be compounded by growing price pressures on Southern Africa sugar markets, as the attractiveness of EU markets to producers in this major sugar surplus region declines.

EU sugar price trends for current and post-quota abolition sugar and isoglucose production, 2012–23

	2012	2013	...	2017	2018	2019	2020	2021	2022	2023
EU sugar price (€/tonne)	726	627		408	416	420	416	413	409	405
World sugar price (€/tonne)	413	376		356	377	380	377	375	371	367
EU price as a percentage of world market price (%)	175.8	166.8		114.6	110.3	110.5	110.3	110.1	110.2	110.3

Source: Extracted from EC, 'Prospects for agricultural markets and income in the EU 2013–2023', statistical tables, December 2013, table 6.15

http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2013/tables_en.pdf

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