

The Rt Hon Earl Jellicoe DSO MC

020
TELEPHONE:
01-626 6525.

SUGAR QUAY

LOWER THAMES STREET

LONDON EC3R 6DQ

From the Chairman

27 January 1981

C A Whitmore Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street
London

Ear Whitmore

I attach some background notes which the Prime Minister may find helpful concerning our announced decision to close our Liverpool Refinery.

I am naturally at your disposal if you require any further information.

Yours Sincerely

George Jellicoe

JELlicoe

Tate & Lyle Limited

Closure of Liverpool Sugar Refinery

Background Notes

1. Why does cane sugar refining have a problem?

Since Britain's entry to the E.E.C. the opportunity for refining cane sugar has reduced by about 1 million tonnes, as shown below:

	<u>'000 tonnes</u>
(a) Loss of in-transit export trade (The premiums which world market buyers paid for white sugar compared with raw sugar, which represented the margins on in-transit exports, have virtually disappeared as a result of white sugar surpluses of 3m. to 4m. tonnes produced by the E.E.C. and dumped on world markets)	200
(b) Contraction of the U.K. sugar market (Loss of about 250,000 tonnes resulted from substitution by glucose, which until recently enjoyed a more favourable regime than sugar under the Common Agricultural Policy. About 100,000 tonnes is due to reduced per capita consumption in the U.K. and reduced demand from the U.K. food industry)	350
(c) Increase in U.K. beet white sugar production (On entry to the E.E.C. the U.K. obtained a beet quota A of 1.040m. tonnes plus a B quota which at the present rate of 27½% is 286,000 tonnes. Under the Common Agricultural Policy farmers receive a high price for beet, and they have consequently increased production. British Sugar Corporation have invested £150m. in factory improvements to take the additional beets, and increase white sugar production)	400
(d) Increase in white imports from Continental Europe (It is the policy of both Tate & Lyle and British Sugar Corporation to compete with imports on price. Food manufacturers seek white sugar imports as a third source of supply, and appear unwilling to reduce import levels to below present 150,000 tonnes.)	50
Total loss of opportunity for Tate & Lyle refined sugar	1,000

2. Why does Tate & Lyle have to suffer all the reduction in U.K. sugar opportunity?

The sugar regime of the E.E.C. was constructed to facilitate beet sugar production, which was the only source of sugar in five of the original six countries in the Community. Although France had about 300,000 tonnes of cane sugar refining, this was used for cube manufacture, and was of little significance compared with France's very large beet sugar production. When Britain joined the E.E.C. there was no framework for obtaining a good margin on cane sugar refining, and this position still persists. The result is that beet enjoys a margin which is up to £30 per tonne more profitable than cane, and cane white sugar could not survive a price war with beet.

3. What has Tate & Lyle done about the loss of opportunity for its sugar?

Since 1976 Tate & Lyle has closed or reduced refining capacity with loss of jobs, as shown below:

		<u>'000 tonnes</u>	<u>Jobs lost</u>
Hammersmith	closed	130	294
Sankey	closed	160	352
Liverpool	reduced	250	734
Walker (Greenock)	closed	110	410
		<u> </u>	<u> </u>
Total Capacity Reduction		650	1,790
		<u> </u>	<u> </u>

4. What is the present position?

Tate & Lyle has a surplus of sugar refining capacity of about 300,000 tonnes, as shown below:

			<u>'000 tonnes</u>
U.K. market demand			2,300
<u>Less</u> U.K. beet production	1,100		
White imports from E.E.C.	<u>150</u>		
Total supplies from beet			<u>1,250</u>
Market available for cane sugar			1,050

Market available for cane sugar		1,050
Tate & Lyle Refineries Capacity:		
Thames	900	
Liverpool	300	
Westburn (Greenock)	140	
Total Refining Capacity		<u>1,340</u>
Surplus Capacity		<u>290</u>

N.B. The capacity reduced (650,000 tonnes), plus the present surplus capacity (290,000 tonnes) giving a total surplus capacity since 1976 of 940,000 tonnes, does not agree with the total loss of opportunity for Tate & Lyle refined sugar of 1.0 million tonnes. This is partly a result of rounding differences, and partly because capacity figures are shown in terms of manned plantime capacities, whereas prior to 1976 part of refineries' production was obtained in overtime.

5. What has been the effect of surplus refining capacity on Tate & Lyle's profitability?

Refining profits have been depressed to levels which are well below the rates of return expected by the providers of capital (both loan and equity), and which do not justify replacement of plant. The figures are as follows:

<u>Financial Year</u>	<u>Refining Profit</u> £m.	<u>Return on Capital Employed</u> %
1978	1.2	1.8
1979	5.4	8.7
1980	5.6	9.3

6. Can Tate & Lyle afford to carry surplus capacity of 290,000 tonnes and allow Liverpool to stay open?

In the financial year 1980 losses were incurred on Liverpool refinery of more than £1.8 million. Liverpool operated at 277,000 tonnes (near to its capacity of 300,000 tonnes) but because the total demand on the company was only for 1.15m. tonnes against total capacity of 1.34m. tonnes, it was necessary to run Thames and Westburn considerably below capacity. This cost a further £7.5 million in addition to the Liverpool loss of £1.8 million.

Demand in 1980/81 is unlikely to be above 1.05m. tonnes, and at this level of working, unused capacity would cost over £10 million. Tate & Lyle simply cannot afford to carry this level of loss on under-utilised capacity, if the U.K. cane refining business is to survive.

7. Are there any ways in which opportunities for Tate & Lyle refined sugar could be increased?

Possibilities considered are:

- (a) Increase U.K. sugar consumption.
- (b) Win market share from British Sugar Corporation by aggressive marketing.
- (c) Persuade British Sugar Corporation to export 300,000 tonnes of beet sugar, thereby leaving room in the U.K. market for the Tate & Lyle surplus capacity to be used.
- (d) Reduce white sugar imports from continental Europe.

Although it is hoped that the decline in U.K. sugar consumption will bottom out, there are no grounds for expecting a recovery. U.K. population is now slightly in decline, and this, together with reducing per capita consumption for health reasons, is a factor tending towards a further fall in demand. It seems unlikely that sugar will recover much of the trade lost to glucose, as in many applications glucose is a technically superior product. There may be some recovery in demand for sugar from the U.K. food industry, but this is expected to do no more than balance the further decline from reducing population and per capita consumption.

Tate & Lyle would like to be able to fight for market share by aggressive marketing, but this would undoubtedly lead to a price war with British Sugar Corporation. With a margin disadvantage of £20 to £30 per tonne, it would be suicidal for Tate & Lyle to engage in such a price war.

British Sugar Corporation receives about £15 per tonne more for sugar sold in the United Kingdom than it would receive if it were to export white sugar. To eliminate Tate & Lyle's surplus capacity it would be necessary in an average year for British Sugar Corporation to export 300,000 tonnes which, at a loss of £15 per tonne compared with home trade, would cost £4.5 million. British Sugar Corporation shareholders and employees would hardly be happy with such a solution.

Efforts have been made both by political persuasion (John Silkin when Minister) and pricing to reduce white sugar imports from continental Europe. These efforts succeeded in reducing imports from 230,000 tonnes per annum to 150,000 tonnes per year, but U.K. food manufacturers appear to regard this as the irreducible minimum for security of supply.

8. If Tate & Lyle must reduce capacity further, why at Liverpool?

Compared with Thames refinery, Liverpool suffers from the very serious disadvantage that the refinery is not situated at the dock, and it is necessary to discharge raw sugar at Huskisson, and then carry it by road to the refinery. At Thames raw sugar is conveyed straight from ship into the process.

Liverpool also suffers from the problem that in an earlier rationalisation its manned capacity was reduced from 550,000 tonnes to 300,000 tonnes per annum. Using large scale plant for a smaller scale operation inevitably incurs cost disadvantages in maintenance, energy consumption and technical efficiency.

The combined effect of these factors can be seen by comparing costs. If both refineries were run at full capacity, then if it cost £40 to produce 1 tonne of sugar at Thames, on the same scale it would cost £60 in Liverpool.

Whilst no doubt the Liverpool operation could be improved by reduced manning and improved technical efficiency, the cost difference of £20 per tonne is too big to bridge.

Options have been examined of eliminating surplus capacity either by reducing Thames capacity by 300,000 tonnes, or by closing Westburn (140,000 tonnes) and reducing Thames by 160,000 tonnes. The next best option to closing Liverpool would give cost savings of at least £4 million per annum less than from the closure of Liverpool.

A detailed scheme was worked out to replace Liverpool refinery by a new 100,000/200,000 tonne refinery to be built at the Huskisson site. This would have supplied the demand for sugar by industry in the North West. Such a refinery would have cost £15/20 million to construct, and with earnings of no more than £1 million, would have been hopelessly uneconomic. This is without taking account of losses which would have been incurred by creating under-utilised capacity at the other refineries.

9. Why close Liverpool now? Why not wait for the new E.E.C. sugar regime and the verdict on the Berisford bid?

Tate & Lyle has already waited a long time before taking this step. The adverse effects are shown in the table of financial results in the answer to Question 5. The company gave maximum support to the E.E.C. Commission's 1979 proposals for a U.K. beet quota of 936,000 tonnes, as at that level Liverpool could just about have survived. These proposals were turned down by the Council of Ministers, and it is now clear that the U.K. will not receive a lower quota than the

Commission's new proposal of 1.092m. tonnes. In both 1979/80 and 1980/81 British Sugar Corporation has produced more than 1.1m. tonnes, and it seems probable that Mr. Peter Walker will succeed in obtaining a U.K. beet quota of 1.15m. tonnes, which he has indicated that he would accept.

It is far from clear whether Berisford would make another bid for British Sugar Corporation, even if they are allowed to do so by the Monopolies and Mergers Commission. Whilst Berisford is experienced in sugar exporting, the proceeds from export would be just as unsatisfactory to Berisford as to the present shareholders of British Sugar Corporation.

Postponing the closure of Liverpool refinery would only serve to prolong uncertainty and weaken further Tate & Lyle's financial ability to re-establish the remaining sugar refining business on a sound footing. There are no reasonable prospects of any change in the situation which would remove the need to close Liverpool.

10. What will be the effects of closing Liverpool refinery on the ACP countries?

The ACP countries have been sending less sugar for refining to the United Kingdom. In 1978/79 the quantity received by Tate & Lyle was just below 1.19m. tonnes, and in 1979/80 below 1.17m. tonnes. In 1980/81 the quantity will fall further to about 1.07m. tonnes, but this is partly because of cyclone damage to the Mauritius crop. The reason for the reducing quantity to the U.K. is that some of the ACP sugar has been sold to France by Mauritius, Guyana and Jamaica.

After closure of Liverpool refinery, Tate & Lyle will still be able to refine most of the ACP sugar, and it is confidently expected that markets for the balance will be found elsewhere in continental Europe.

11. How will Tate & Lyle deal with Liverpool employees?

Under the Company's special scheme, early retirement will be granted to male employees aged 60 and over and also to female employees aged 55 years and over in full-time employment. For employees who are not eligible for early retirement, leaving payments will be made which place particular emphasis on length of service with the Company. In total these payments will be substantially more generous than the State scheme.

The Company will give every possible assistance to its work people in planning for their future at this very crucial time, and in particular in seeking alternative opportunities, e.g. by retraining, wherever possible. It is encouraging that the company has already received a number of notices of availability of other jobs.

12. What must be done to safeguard the future of cane refining?

While Tate & Lyle will be able to continue to accept most of the ACP sugar which has traditionally come to Britain under the Lome Convention, and will endeavour to ensure that the balance finds a home elsewhere within the European Community, it is vital that the position of cane refining in the U.K. is not further eroded. Successive British Governments have given repeated assurances to the ACP producers which recognise the importance to them of their traditional outlet in this country, through which the vast bulk of the ACP imports find their way to market. If this outlet is further restricted by further expansion of U.K. beet production, there can be no way of giving practical expression to the undertakings of the Lome Convention.

It is equally vital that the E.E.C. cane refining margin, so markedly less generous than that available to beet processors, is set at a fair and equitable level.