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Raw material markets: Sugar prices increased further

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Britain and France. It was noticeably higher in Austria, Denmark, Belgium and Italy with 3 to 4 p.c.

Higher Profits Promote Investments

The production thrust of the West European economy during the second half-year led as a whole to a noticeable increase in the usage of capacity. This process should have taken place predominantly in a sector with decreasing or at least constant unit costs, and should therefore have had generally a stabilising effect. Under these circum-

stances, entrepreneurial profits have strongly increased, and thus promoted the propensity to invest. The increase of private investments in fixed assets has therefore more and more become the most important guiding force of the upswing in Western Europe. Some tendencies towards a diminished increase of the other demand components—exports to the rest of the world, demand of the state—are all the more important in order to avoid that the expansion will overcharge the resources in different countries already in the near future.

Raw Material Markets

Sugar Prices Increased Further

The introduction of relatively tightly measured export rates for 1969 in the frame of the new International Sugar Agreement made sugar prices rise vigorously during the last months. The price in New York for promptly available goods of World Contract No. 8 has since the beginning of the season 1968/69 increased to more than the double and since the beginning of this year by roughly 25 p.c. to 3.82 cts per lb.

This considerable rise in the price level would hardly have occurred without the new sugar agreement. True, the production in the current season 1968/69 with probably 68.8 mn t (1967: 67.7 mn t) will not suffice to meet the consumption of 70.0 mn t,

which is estimated to be by almost 4 p.c. higher as compared with the preceding season (1967/68: 67.4 mn t). But the production gap of 1.2 mn t could easily be filled by the voluminous stocks. For, these will still represent with 17.4 mn t at the end of the season more than twice the sugar volume traded in the free world market within one year. But the export rate for 1969 has been reduced to 90 p.c. of the basic rate of the sugar agreement amounting to approximately 8.5 mn t, so that the import demand in the free sugar market can only be satisfied with difficulties.

In view of the great stocks and some considerable shortcomings of the International

Sugar Agreement, its functioning has initially been doubted. For the agreement comprises only the supply in the free world market of about 8 to 9 mn t of sugar, and not the deliveries within the framework of bilateral special agreements, which have at least the same size. Moreover, the EEC has up to now not joint the agreement. In the negotiations the EEC countries had demanded an export quota for themselves of 1.2 mn t. This size could however not be accepted by the other countries because of their own surplus productions. Should the EEC countries really sell sugar in greater quantities at lower prices outside the treaty, the effectiveness of the new sugar agreement could be seriously threatened.

A further danger for the agreement is, on the other hand, the further growing surplus stocks in some member countries as a result of export restrictions. This could to a certain extent be remedied at first by a transfer of the export rates not fully used by other member countries. In the long run, sugar prices can only be held at the present higher level, if, over several years, less sugar is produced than is consumed and if thereby stocks are reduced.

Compiled by the Department for Business Trends Research of the Hamburg Institute for International Economics

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