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World Sugar Outlook and the European Policy

by Ian Smith, Newcastle *

Sugar has always been a highly political and controversial commodity, but never more so than at the present time. The uneasy rivalry between cane and beet sugar, the products of tropical and temperate countries respectively, is giving way to open conflict.

The failure of the United Nations Sugar Conference in Geneva to negotiate a new international agreement is a major setback which is certain to intensify the struggle between cane and beet producers. The difficulty in reconciling their interests is manifest in the prolonged and unresolved debate over the future of Commonwealth sugar in the enlarged European Community (EC). Recent proposals by the EC Commission to cut back production of Community sugar to allow entry for 1.4 mn tons of cane sugar from developing Commonwealth countries met with vehement protest from domestic beet farmers. French beet growers were particularly vociferous in their opposition to the Commission's proposals.

The EC has an obligation to take Commonwealth sugar arising from its acceptance of Britain as a full member, apart from any specific undertaking given during entry negotiations. This article examines what steps the Community should take to fulfil this obligation.

International Sugar Situation

World production of raw sugar in 1973-74 is expected to reach a record level of 81 mn tons, matching consumption for the first time for three years. But with world stocks reduced to abnormally low levels, prices are expected to remain relatively high for some time to come.

Of total world production only about 20 mn tons are traded internationally, and more than half is covered by special trading arrangements which major consuming countries have with their overseas suppliers. The most important of these are the United States Sugar Acts (covering about 5 mn tons annually), the bilateral agreement between Cuba and the Soviet Union (2 mn - 4 mn tons) and the Commonwealth Sugar Agreement (1.7 mn tons). The world market is a residual one

accounting for only about 9 mn tons. For protected beet producers in developed countries it is regarded as little more than a dumping ground for surplus production; but for cane producers it constitutes an important additional market.

The price ruling on the residual world market tends to fluctuate over a wide range. Comparatively small changes in supply can produce enormous changes in price. During the past decade prices have varied between £ 12 and £ 108 per ton. They have been known to remain well below production costs of even the most efficient producers for long periods. No sugar industry could survive on its sales to the residual world market alone. Trade takes place on the residual world market because exporters have other outlets at stable and remunerative prices.

From 1969 to 1973 the residual world market has been regulated by the International Sugar Agreement (ISA), of which nearly all major producing and consuming countries are members, except for the USA and EC. It has been frequently pointed out that the ISA has failed in its primary objective of price stabilisation. It is true that international sugar agreements have, generally, been more successful in maintaining prices during a surplus rather than restraining prices during a shortage. No agreement can work satisfactorily unless there are adequate provisions for holding stocks. But how to maintain stocks in a residual market, and how to finance them when so many of the exporting members are less developed countries (LDCs), are problems that have not been solved. But unless there is some regulation the residual world market will slip back into anarchy and depression, resulting in lower export earnings for LDCs.

The UN Sugar Conference

The UN Sugar Conference failed to negotiate a new ISA for 1974 largely for two reasons.

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□ First, important changes in the structure of other sugar markets are imminent; the Commonwealth Sugar Agreement ends, and the US Sugar Act is renewed in 1974; while the EC's sugar regulations will be revised in 1975. They made it difficult to view the residual world market rationally.

□ Second, many exporting countries, encouraged by recent high prices and continuing shortages, were not prepared to compromise on the question of price.

The sugar trade will thus have to accept an unregulated residual world market. Perhaps present high prices and surpluses may be less significant than is generally believed. World consumption, increasing fairly steadily at a rate of about 3 p.c. per annum, can be expected to slow down if high prices continue. FAO have estimated that world consumption should amount to about 94–96 mn tons by 1980. But they are based on the assumption of constant real prices and will almost certainly be too high. More than half the increase in consumption was expected in LDCs where consumption is particularly vulnerable to high prices. Production is also responsive to price and already seems to have matched consumption. If present trends continue the market should be in substantial surplus well before 1980.

Shortages and relatively high prices are not in the long-term interests of LDCs. They serve to reduce consumption and stimulate production in developed countries. Only a few countries, and all of them developed, are able to increase production rapidly in response to world shortages. Markets lost by cane producers are not easily recaptured. Cane sugar may be inherently cheaper to produce than beet sugar, but production in developed countries is seldom reduced when shortages disappear.

There is no question of the world not needing sugar produced in developed countries. The enor-

mous increase in production of the post-war era must be largely attributed to the scientific and technical leadership provided by developed countries. Rather the problem is how to prevent the developed countries from pre-empting the markets of cane producers.

Sugar in the EC

The sugar regulations of the common agricultural policy are designed to maintain self-sufficiency or more. They set a relatively high internal price and reserve the domestic market for home producers by means of variable import levies. These arrangements present an impenetrable barrier to imports and penalise member states which fail to achieve self-sufficiency.

Sugar is, however, subject to production controls by price reductions on production over and above the requirements of self-sufficiency. This dual-price system provides a relatively high price and guaranteed market for a basic quota, and a lower price for the surplus. Its purpose is to maintain production in relatively high-cost areas while keeping overall production within acceptable limits. It has not been successful. From 1968/69 to 1972/73 production in the six member states increased from 6.8 mn to 8.0 mn tons. The corresponding increase in consumption was from only 5.9 mn to 6.4 mn tons. This increasing surplus has been disposed of at prices usually well below production costs.

The apparent inability to control production has been due to an unrealistic pricing policy. The current intervention price makes the growing of sugar beet more profitable to large farmers than alternative crops. Only in Italy has the beet acreage declined. But there has been no attempt to adjust prices in response to the growing surplus. The EC Commission recently rejected the use of prices to regulate production and proposed



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instead changes in the level of quotas. It is doubtful if manipulation of quotas will curb excess production in the absence of an appropriate pricing policy.

The European Community undertook, during negotiations for British entry, to "have at heart" (*aura à cœur*) the interests of all primary producing countries, particularly those producing sugar. This undertaking was regarded by developing Commonwealth countries associated with the Commonwealth Sugar Agreement (CSA) as not sufficiently precise, since it contained no reference to quantity, duration or price. Britain interpreted the Community's offer as meaning continuing access for 1.4 mn tons of CSA sugar to the enlarged EC, and developing Commonwealth countries accepted it on that basis.

The Brussels settlement made no attempt to set an upper limit to Community beet production and left unanswered the question of how room was to be found for 1.4 mn tons of CSA sugar. It is now apparent that it will not be possible to accommodate 1.4 mn tons of CSA sugar in 1975 without a substantial reduction in domestic beet production. The position is summarised in the Table, which provides projections for 1974/75, when the CSA is terminated. They are based on existing beet acreage and average yields for the past two years. Production is expected to reach 10.2 mn tons in 1975, but consumption is not likely to exceed 9.7 mn tons.

If the EC is to continue to take Commonwealth Sugar after 1974 it must either reduce domestic production by 1.4 mn tons or re-sell a similar quantity of CSA sugar on the residual world market.

Sugar in the European Community
(1000 metric tons, white value)

	1970/71	1971/72	1972/73 ¹	1973/74 ¹	1974/75 ²
Production	8,877	10,388	9,525	10,107	10,200
Consumption	9,100	9,100	9,500	9,600	9,700
Surplus	-223	1,288	25	500	500

¹ Estimated. ² Projected.

Source: F. O. Licht.

The latter is unacceptable, would almost certainly disrupt the residual world market, which will also have to absorb the Australian CSA quota (335,000 tons) to be phased out over the transitional period for British agriculture. It would mean a substantial loss in export earnings for CSA producers like Mauritius, Fiji and Swaziland, which sell a high proportion of total output on the residual world market.

Reducing domestic production will not be easy. British beet farmers, more restricted than any other in the EC, are anxious to expand produc-

tion and expect to take over the displaced Australian CSA quota. France is also increasing production rapidly and would like to see a cut in the CSA quota. It could be argued that there would be no harm in the EC exporting, say, 500,000 tons, in which case production would not need to be reduced by the full 1.4 mn tons. Consumption, too, is increasing by about 170,000 tons per year, and this should ease the problem of absorbing CSA sugar provided domestic production can be curtailed. Clearly there is room for manoeuvre. Even so, there will have to be a substantial reduction in EC production if the problem of Commonwealth sugar is to be satisfactorily resolved.

Diversification

Many CSA exporters are sugar monocultures, and this is regarded as bad. French beet interests argue that Commonwealth sugar exporters should diversify out of sugar. They propose a higher price for a reduced quantity. Higher prices coupled with aid for diversification would, on this view, sustain employment and growth prospects in developing Commonwealth countries. Few would deny that Commonwealth producers need higher prices for their sugar. Rising production costs and falling output has reduced the profitability of the industry in the Commonwealth Caribbean to dangerously low levels. But higher prices will not compensate for a reduced quantity.

Reduced access to Community markets and greater dependence on the disorderly residual market would almost certainly lead to a fall in Commonwealth production. The under-utilisation of capital equipment involved must inevitably raise unit production costs, further weakening the competitiveness of the industry.

All Commonwealth sugar exporters are attempting to diversify. But there are limits to diversification. The smallness of the domestic market, lack of technical resources, and restricted access to overseas markets present formidable difficulties. Some success has been achieved with tea in Mauritius; forestry, citrus fruit and iron ore in Swaziland; bauxite and cattle in the Caribbean. But these industries are not a substitute for sugar. Sugar is ideally suited to climatic conditions in tropical countries. It generates more employment and gives a higher return per acre than most tropical crops. Diversification will have to be along with sugar and not out of sugar. The argument that developing Commonwealth countries should get out of sugar to make way for EC beet producers to expand their protected production is surely unacceptable. If the Community is to help developing countries it must open its markets to their products.