

Koch, Thomas

Article — Digitized Version

The sugar protocol: an appraisal

Intereconomics

Suggested Citation: Koch, Thomas (1989) : The sugar protocol: an appraisal, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 6, pp. 293-297, <https://doi.org/10.1007/BF02924737>

This Version is available at:

<https://hdl.handle.net/10419/140214>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Thomas Koch*

The Sugar Protocol: an Appraisal

A key issue in the talks on the fourth Lomé Convention is the demand of some Caribbean and Central American nations to join the ACP group, so as to benefit from the preferential treatment and financing facilities it enjoys. A specific concern is accession to the Sugar Protocol appended to the Lomé Agreement. The following article deals with the form and developmental implications of this protocol.

On 28th February 1990, the third Lomé Convention between the 12 EC states and the 66 countries of Africa, the Caribbean and the Pacific (ACP) will expire. In addition to the old problems, such as the design of the STABEX system, trading arrangements between the parties and the financing of the European Development Fund (EDF), new ones have arisen during the term of the current treaty. An example is the debate on a special fund for structural adjustment to support macroeconomic measures, thus departing from the system of strict sectoral promotion adopted so far. This new fund is to be closely coordinated with the World Bank and the International Monetary Fund, although no change in the nature of Community assistance is planned. The ACP countries also want sales and price guarantees for tropical products such as coffee and cocoa. Another problem complex is the environment and the export of toxic waste to the Third World.

A major problem for the new talks for Lomé IV will be the demand of some of the Caribbean and Central American states to join the ACP group, so as to gain access to the preferential treatment and financing arrangements available to the 66. The Dominican Republic and Haiti have applied for membership. Spain appears amenable: it advocates the enlargement of the ACP agreement to include those countries within its own former sphere of influence. On the other hand, it also wants to protect its own banana production on the Canary Islands. The fresh negotiations on the so-called "banana protocol" in the Lomé Convention thus also contain a bone of contention. The other EC states, however, fear an adulteration of the Lomé Convention. Haiti's and the Dominican Republic's accession could pave the way for other South American and Central American countries.

The Dominican Republic's major concern is membership of the Sugar Protocol in the annex to the

Lomé Convention,¹ which allows 18 ACP countries and India as a non-member² to export a set quota of sugar into the EC at preferential prices. Besides the Dominican Republic, the ACP countries Zambia and Papua New Guinea are also interested in accession. How the Sugar Protocol is organized and why membership is being applied for will be looked at in the following.

The United Kingdom's application for accession to the EEC necessitated rescinding the Commonwealth Sugar Agreement (CSA), which had been in effect from 1950 to 1975, because it granted preferential treatment to non-members, which contravened the Treaty of Rome.³ In the EC, the Sugar Market Regulations have regulated the sugar sector from 1968 onward by means of a system of production quotas and guaranteed prices and kept it decoupled from the world market through export subsidies and import levies. Unlike the European continent, where sugar is manufactured from sugar-beet, the British sugar industry depended on cane-sugar imports from its former colonies.⁴ On the occasion of the negotiations on including the developing countries of the Commonwealth in the EC Conventions of Arusha and Yaoundé, the chance was taken to reform relations in the sugar industry. On 16 December 1974, agreement was reached in the Lomé negotiations which led to the incorporation of "Protocol No. 3 on ACP

¹ A high percentage of the Dominican Republic's exports is taken up by sugar: 23% (1986). Nearly two-thirds of these exports are sold on the US preferential market. Recent increased domestic protection in the USA has pushed these supplies out of the market however, so that a new market will have to be found.

² A special agreement was concluded with India containing the same provisions as the Sugar Protocol. India does not however enjoy the same extensive rights as an ACP country, as it is classified as a newly industrializing country.

³ On the CSA see inter alia A. G r i s s a : Structure of the International Sugar Market and Its Impact on Developing Countries, Paris 1976, pp. 24-30.

⁴ The British sugar industry is identical with the firm Tate & Lyle, which received and processed the entirety of raw sugar supply within the CSA. To assert its interests, it argued that jobs were endangered if special arrangements were not made for the requisite raw sugar in the case of the Sugar Market Regulations being adopted.

* University of the Bundeswehr, Hamburg, West Germany.

Sugar” in the Annex to the Lomé Agreement of 1st February 1975. The Protocol is made up of two separate agreements, the first being a prerequisite to the second. The first bound the EC to purchase 332,500 tonnes raw sugar (in white sugar units) at a preferential price in a transition phase from 1st February 1975 to 30th June 1975.

In the second part, the EC guarantees to purchase and import a quantity of raw sugar equivalent to 1,279,700 tonnes of white sugar each marketing year (for sugar from 1st July to 30th June) at an agreed floor price (see Table 1).

The quota fixed in a special agreement with India amounted to 25,000 tonnes in white sugar units, so that as of 1976/77, an aggregate annual volume of 1,304,700 tonnes white sugar units could be imported into the EC on preferential terms. The quotas are imported irrespective of Article 10 of the Lomé Convention, which provides for protective action in the case of serious impairment to the EC's economy.

In the Sugar Protocol, the EC pledges for an indefinite period⁵ to market the agreed volumes at a price established basically by free market mechanism. Every year, up to 1st May, the ACP countries and the EC negotiate a guaranteed price in line with the EC intervention price, catering for all “major economic factors”, which then applies to the next marketing year. The price in units of account or in ECU relates to bulk sugar at EC standard quality, c.i.f. European ports in the Community.

This arrangement is criticized by the ACP countries, because unlike the Commonwealth Sugar Agreement prices, which were f.o.b. Caribbean ports, the transport costs must be borne by the supplying countries. The ACP countries see the transport and insurance costs as “major economic factors”, which should be accounted for in the guarantee price in compliance with Art. 5 Para. 5 of the Sugar Protocol.⁶

The guarantee price is paid by the Community when a higher price cannot be obtained on the market. To enable the ACP countries to build up a white sugar capacity a guarantee price is stipulated for white sugar in addition to raw sugar. The intervention agencies of the European Agricultural Guidance and Guarantee Fund (EAGGF) buy up the sugar, which is thus exempted from the import levies usually imposed on non-preferential imports. If the sugar delivered does not meet the prescribed standards, the guarantee price is reduced. Except for 1975 and 1980, the overall price has been well above that on the world market (see Fig. 1).

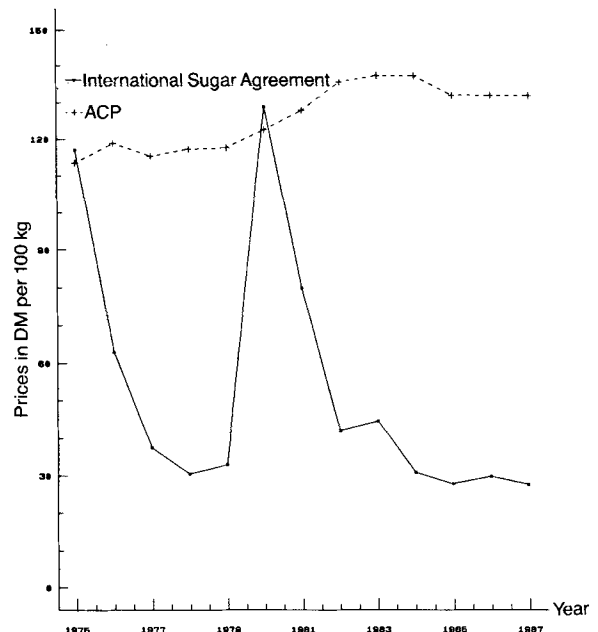
In return for the purchase guarantee of the EC, the ACP countries are subject to an obligation to deliver aimed at pre-empting shortfalls in periods of high prices, as in the case of the Commonwealth Sugar Agreement of 1974. Delivery shortfalls in the event of *force majeure* are not penalized.⁷ If for any other reason the exporting country fails to deliver the set quota, the difference

Table 1
Original and Latest Quotas in the ACP Sugar Protocol

Country	Quotas in tonnes of white sugar equivalent	
	marketing year 75/76	marketing year 87/88
Barbados	49,300	50,312.4
Belize	39,400	40,348.8
Fiji Islands	163,600	165,348.3
Guyana	157,700	159,410.1
Jamaica	118,300	118,676.0
Kenya	5,000	.0
Madagascar	10,000	10,760.0
Malawi	20,000	20,824.4
Mauritius	487,200	491,030.5
St. Kitts-Nevis-Anguilla	14,800	15,590.9
Surinam	4,000	.0
Swaziland	116,400	117,844.5
Tanzania	10,000	10,186.1
Trinidad and Tobago	69,000	43,751.0
Uganda	5,000	.0
PR Congo	10,000	10,186.1
Ivory Coast	—	10,186.1
Zimbabwe	—	30,224.8

Sources: ACP-EEC Convention, published in: The Courier ACP-EEC, No. 58, November 1979, pp. 90-92; Official Journal of the EC, Series L, current volumes.

Figure 1
Price Trends on the World Market for Sugar and the ACP Preferential Price



Source: Bartens/Mosloff: Zuckerwirtschaftliches Taschenbuch, Berlin, various volumes.

between the volume delivered and the quota is cancelled for future delivery periods.⁸ This differential can be redistributed after consultations between the EC and the countries concerned.

In the marketing year 1975/76, quotas were cut, but these were then revised for political reasons.⁹ In the following years, though, the quotas were retrenched and the quantities thus set free redistributed. Uganda, Kenya und Surinam forfeited their right of supply, as did India, which was however granted a new, more modest quota in the marketing year 1983/84.

Acceptance of New Members

An interesting facet of the application for membership is the way in which the list of countries has been extended. In 1981/82 and 1983/84, Zimbabwe and the Ivory Coast respectively were granted membership, without however raising the global preferential volume of 1,304,700 tonnes in white sugar units, which was redistributed amongst the member states according to Art. 7 of the Sugar Protocol at the expense of Uganda, Surinam and India.

This article and established practice provides the new applicants with the opportunity of membership, which would entail a curtailment of quotas for one or more states. In the marketing year 1986/1987, Kenya was deprived of its entire supply quota. Since however this was shared out amongst all the other ACP countries, it will be difficult to induce the Protocol states to voluntarily relinquish their rights of supply and preferences, particularly as none are at present having structural supply problems.¹⁰

⁵ Up to 1st March 1982 the possibility was available of revoking the Sugar Protocol, contingent on the results of an appraisal of its effects, which meant that the term of the Sugar Protocol was independent of the overall trading agreements of the Lomé Convention. In the case of a suspension or termination of the Lomé Convention, the EC and the supplier countries are obliged to continue to apply the provisions of the Protocol.

⁶ As decided at the 13th session of the ACP-EEC Council of Ministers, the problem of transport costs is to be examined by a joint commission to find a mutually acceptable solution; see Bulletin of the EC, No. 5, 1988, p. 81.

⁷ Another margin of flexibility is the option to extend the term of right of supply over the span of the given marketing year with the agreement of the exporting country.

⁸ Here, though, a margin of flexibility of 5% is applied.

⁹ The quota cuts affected Uganda, Surinam and the People's Republic of the Congo. See R. Hasse, R. Weitz: Das Abkommen von Lomé – Übergang oder Alternative zu einer neuen Weltwirtschaftsordnung?, Cologne 1977, p. 106.

¹⁰ In the marketing year which has just expired, 1988/89, Guyana had problems meeting its supply quota due to a strike, yet this temporary supply bottleneck is not to warrant a quota reduction; see F. O. Licht: Europäisches Zuckerjournal, Ratzburg 1989, p. 231 f.

¹¹ Cf. Handelsblatt and Neue Zürcher Zeitung, both of 17. 3. 88.

¹² See Bulletin of the EC, No. 10, 1988, p. 78 f.

The other avenue, not provided for in the Sugar Protocol, is to extend the overall rights of supply and this is rejected categorically by the EC.¹¹ Nevertheless, a special arrangement seems to be in prospect for the ACP countries Zambia and Papua New Guinea. The EC has decided to grant these countries a "zero quota" to allow them to benefit from redistribution in the case of quota cuts but it still needs to be investigated whether they will be able to meet the obligations placed on them by the Protocol in the long run; the present signatories must also agree to accession.¹²

Only via a special arrangement could the Dominican Republic and Haiti enter the Sugar Protocol. What is the use of joining at all? In order to answer this question, we need to analyse the effects this preference agreement has had so far.

Transfer Effect

Thanks to the Sugar Protocol, the sugar producers can as a rule obtain a preferential price for their deliveries within the quota well in excess of that on the world market. If we compare the annually fixed preferential price for raw sugar with average yearly prices of the International Sugar Agreement, based on own calculations, this gives us a transfer in the form of a "quota rent" of DM 5.5 billion that have flowed into the

Table 2
The Quota Rent¹ Derived from the ACP Sugar Protocol
(cumulative figures for 1975--1987 in DM million)

Country	Transfer Effect	Transfer Effect per capita 1987 in DM
Barbados	203	108
Belize	160	152
Fiji Islands	666	145
Guyana	642	100
Ivory Coast ²	23	0.67
Jamaica	739	31
Kenya ³	13	0.22 ^a
PR Congo	36	3.63
Madagascar	42	0.67
Malawi	83	1.92
Mauritius	1983	298
St. Christopher-Nevis	62	203
Swaziland	474	115
Zimbabwe ⁴	112	2.31
Surinam ⁵	0.263	-2.08 ^b
Trinidad and Tobago	212	21
Tanzania	41	0.31
Uganda ⁵	0.206	-0.01 ^b
India	31	0.01
Total	5552	

¹ The quota rent is calculated from the difference between the ACP raw sugar price and the London Daily Price (raw sugar), multiplied by the preference quota of the country concerned.

² 1983 to 1987. ³ 1975 to 1985. ⁴ 1981 to 1987. ⁵ 1975 to 1980.

^a 1985. ^b 1980.

Sources: F. O. Licht: World Sugar Statistics, Ratzburg, current volumes; Official Journal of the EC, Series L, current volumes; Deutsche Bundesbank: Die Währungen der Welt, Series 5, current volumes; The Courier, No. 89, January-February 1985; own calculations.

ACP countries since the entry into force of the Sugar Protocol (see Table 2).

The problem with the allocation of the quota rent amongst the ACP countries is that the "prosperous" developing countries like Barbados, Fiji, Guyana, Jamaica, Mauritius and Trinidad and Tobago receive a high percentage of the transfer due to their high quotas.

If we relate the transfer of the quota rent to the size of the population in the respective countries, the inflow of revenue takes on a different meaning. Especially countries with low populations profit from the quota rent despite quite low quotas in some cases, such as St. Christopher-Nevis and Belize. Conversely, a high transfer can mean relatively low per capita revenue if the population is large. Examples of this are Jamaica, Trinidad and Tobago and the African countries. Whether the transfer actually flows into the economies of these countries and is employed for productive purposes is doubtful, as the sugar sectors are often in the hands of foreign owners.¹³

The crucial determinants of the quota rent – the annual differential between world market prices and Protocol prices – have risen since 1981 in favour of the sugar exporters (see Fig. 1). The EC, however, no longer appears to be willing to raise the preferential price: the EC's degree of self-sufficiency has risen from 90% (1975) to 129% (1987) as a result of the guarantee price for the sugar produced within the excessive quotas specified by the Sugar Market Regulations. Like EC surpluses, the ACP sugar imports are re-exported with the aid of subsidies.¹⁴

For this reason, the ACP preferential price has kept at a comparatively stable level since 1983; it was last increased in terms of ECU in 1985, which in DM meant a drop. A further cut would be difficult to implement for political reasons.

High Stabilizing Impact on Revenue

Another impact is that on export revenue. The guarantee price level stabilizes the export earnings from the preference quota, thus acting as a buffer between the members of the Sugar Protocol and the world market. The stability of the guarantee price thus lessens the risk for the ACP countries. The highly unstable earnings from sugar are thus given a margin of stability (see Table 3).¹⁵

The instability ranges between 73% (Congo) and 222% (Uganda). Tanzania derives the greatest benefit;

¹³ According to Imfeld, even the plantations in Tanzania, Kenya, Swaziland, Jamaica and Belize are owned by Tate & Lyle. Cf. A. Imfeld: Zucker, 3rd ed., Zurich 1986, p. 174.

the Ivory Coast and Mauritius also gain considerable advantages from the Protocol. Least advantaged are India and Zimbabwe, whose quota is low compared to their total exports.

In all, we may conclude that the revenue effect of the ACP Sugar Protocol on the sugar exports of the member states is substantial, thus helping to contain the economic risk to which the sugar producing sector is subject. The next question is whether this "subsidization" of the sugar sector in the ACP countries is employed to adjust to the keener competition on the world market or whether established structures are protected, which would be unviable without the Sugar Protocol.

Application of Earnings

The allocation signals emanating from the high prices of the ACP Sugar Protocol have prevented production factors being shifted to efficient sectors of the economy and the annual transfer and the stabilization of export revenue have not as yet been used to restructure the sugar sectors with a view to adjusting to the world market (see Table 4). The ACP countries have almost exclusively exported raw sugar. Only Malawi, Mauritius and Zimbabwe have exported small volumes of white sugar¹⁶ – some 1% of their overall sugar exports to the EC. This is surprising, since unlike the Commonwealth Sugar Agreement, the Sugar Protocol expressly caters for this possibility.

So far then, the ACP countries have not established sufficient refining capacity, which would represent a higher stage of development in sugar production. On the contrary, since 1975, the EC has been regularly exporting white sugar to nine Sugar Protocol countries (Congo, Ivory Coast, Kenya, Tanzania, Uganda, Jamaica, Guyana, Surinam and India).¹⁷

White sugar in particular offers the chance of

¹⁴ The Sugar Market Regulations fence the European market off from the world sugar market. If the world market price is under the officially fixed EC level, the surplus sugar is subsidized for export and thus kept artificially competitive. This subsidy dumping by the EC results in distorted pricing on the world market, which makes exporting unprofitable for some countries, which are then unable to cover production costs. On the other hand, levies on world market sugar are so heavy that importing into the EC is virtually impossible. These adverse effects of the Sugar Market Regulations also affect the sugar exporting ACP countries' supplies on the world market. Cf. P. M. Schmitz, U. Koester: Der Einfluß der EG-Zuckerpolitik auf die Entwicklungsländer, discussion paper No. 42, Institut für Agrarpolitik und Marktlehre der Universität Kiel, June 1981.

¹⁵ The coefficient of variation as a measure of price instability amounts for sugar to 78%, while other agrarian commodities display lower instability – bananas 39%, wheat 42%.

¹⁶ Malawi has been exporting white sugar to the EC since 1983, Zimbabwe since 1985, while Mauritius, heavily geared to sugar, has always exported small quantities of white sugar. If this trend continues, it can be rated as a success in developmental terms.

occupying market segments, the only new consumers being the countries of the Third World, with their growing populations as a potential source of demand, which require white sugar and not raw sugar on the world market. The demand of the industrialized countries is evidently saturated and even on the decline owing to substitution through alternatives. The USA for example

has made sizable inroads on its import quotas for sugar over the last few years, so as to protect domestic production. It did this for example with the Dominican Republic, whose exports to the USA dropped from 700,000 tonnes in 1981 to 100,000 tonnes in 1987. The US sugar industry lost sizable market stakes, due to the maize-based substitute isoglucose increasingly replacing sugar. Also, the US soft drink manufacturers have changed their recipes, going over to HFCS (high fructose corn syrup).¹⁸

Table 3
Instability of Export Earnings with and without the ACP Sugar Protocol
(Coefficient of Variation)

Country	Export Earnings		Stabilization Effect
	with Preference Agreement	without	
Barbados	0.92	0.43	0.533
Belize	0.81	0.30	0.630
Fiji Islands	0.80	0.32	0.600
Guyana	0.80	0.27	0.633
Ivory Coast	1.26	0.36	0.714
Jamaica	0.78	0.34	0.564
Kenya	1.17	1.10	0.060
PR Congo	0.73	0.62	0.151
Madagascar	0.93	0.57	0.387
Malawi	0.84	0.49	0.417
Mauritius	0.91	0.22	0.758
St. Christopher-Nevis	0.78	0.33	0.577
Swaziland	0.79	0.40	0.494
Surinam	1.24	0.27	0.782
Trinidad and Tobago	0.78	0.35	0.551
Tanzania	1.20	0.16	0.867
Uganda	2.22	0.83	0.626
Zimbabwe	1.36	0.97	0.287
India	1.19	1.06	0.109

Source: T. Koch: Wirkungsanalyse des AKP-Zuckerprotokolls, unpublished manuscript.

Table 4
Cumulative Raw Sugar Supplies of the ACP Sugar Protocol Countries to the EC, 1975-1981 and 1982-1986
(in tonnes of raw sugar)

	Supply Period			
	1975-1981		1982-1986	
	Raw Sugar	White Sugar	Raw Sugar	White Sugar
Barbados	298,378	—	226,780	—
Belize	307,423	—	205,206	—
Fiji Islands	1,277,137	—	821,086	—
Guyana	1,170,805	—	826,389	—
Ivory Coast	3,300	—	27,649	—
Jamaica	884,766	—	552,900	—
Kenya	2,647	(5,093)	36	(8,141)
Congo	31,058	—	35,945	—
Madagascar	66,444	—	53,512	—
Malawi	102,822	—	92,452	(1,139)
Mauritius	3,519,156	(23,338)	2,370,340	(26,711)
St. Christopher-Nevis	92,181	—	69,392	—
Swaziland	621,364	—	543,090	—
Surinam	8,176	(500)	—	—
Zimbabwe	—	—	141,269	(1,590)
Trinidad and Tobago	492,563	—	219,188	—
Tanzania	54,318	—	52,167	—
Uganda	—	—	—	—
India	36,387	(63,278)	1,577	(10,000)

Source: F. O. Licht: World Sugar Statistics, Ratzeburg, various volumes; own calculations.

The lack of white sugar production capacity is underscored by the following indicators. In 1984, Kenya imported 38,898 tonnes of white sugar from the EC, while exporting 3,990 tonnes, almost the entire supply quota of 4,000 tonnes. In 1986, India imported 250,733 tonnes of white sugar from the EC and re-exported 10,000 tonnes to the EC to fulfil its quota. This exploitation of the arbitrage between the ACP preferential price and the world market price, which is heavily pressurized by subsidies, illustrates the importance the ACP countries attach to making full use of the quota rent, which is obviously large enough to more than offset the resulting transport costs.

The Sugar Protocol thus does not foster development, so it is worth considering in the pending negotiations on the fourth Lomé Convention whether tying transfer funds is desirable. From a developmental standpoint, it would be useful to employ the quota rent to restructure the sugar sectors, by setting up plant for white sugar and diversifying production. One possibility could be to broaden the product range to include by-products of sugar manufacture, such as molasses, bagasse and charcoal, which can be won from the highly fibrous sugar cane.¹⁹

Before admitting a country like the Dominican Republic into the Protocol, an investigation should be made of the sugar sector to ascertain whether the quota rent can be applied effectively. A transfer without conditions may afford advantages in the short run, but in the mid term and the long term it could prove to have an adverse effect for the new member and the EC.

¹⁷ It must be remembered here though that Uganda, Surinam, Kenya and occasionally India have lost their supply rights due to non-delivery and that Jamaica only received a small volume between 1983 and 1985, which would infer a "genuine" demand.

¹⁸ Cf. S. Harris: Current issues in the world sugar economy, in: Food Policy, May 1987, p. 136; and F. Zeller: Konkurrenzsituation auf dem Weltzuckermarkt, doctoral thesis, Kiel 1988, p. 123.

¹⁹ Cf. J. G. Brown: The international sugar industry. Developments and Prospects, in: World Bank Staff Commodity Working Papers No. 18, Washington D. C. 1987, pp. 46-52. The manufacture of charcoal can also be viewed as a contribution towards countering deforestation in some developing countries.