

ACP SUGAR AND THE WORLD MARKET

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I feel like a football commentator being asked five days before the cup final to discuss the game and comment on the result. To-day is Wednesday and next Monday all producing and consuming nations of the world will assemble in Geneva to try and devise the best possible means of regulating the world sugar market.

The world free market, as it is also called, has been in crisis for the last 2 years. Production has greatly exceeded consumption, according to some estimates by 8/9m. tonnes since 1981. Consumption is not increasing at the former normal rate because, among other reasons, part of the sugar market in a few industrialised countries has been captured by other types of sweeteners - particularly by isoglucose, made from maize and now extensively used by food and drink manufacturers.

The world free market represents a small proportion of total sugar produced, last crop year only about 20m. tonnes out of 98m. The rest is either consumed where produced or traded under 'special arrangements' like the Lomé Sugar Protocol, or put into stock. The world market is therefore residual and highly sensitive to annual crop fluctuations. This is reflected in world price fluctuations. For instance, in 1980 the average world price was £291. The surplus produced since then has caused falls to £202 in 1981, £119 in 1982, and £105 for the first 3 months of 1983. This is well below the cost of production and it has become imperative to restore order, balance supply and demand, and raise prices. Hence the Geneva conference.

Clearly, the ACP countries are very much concerned. Of course a proportion of their exports is sold in EEC markets at a guaranteed price and is therefore protected from world market fluctuations. This price is now about £264 against a world price of £110. But the ACP still have to sell on the world market. The balance varies between about 20% of production in Mauritius and about 54% in Fiji, Malawi and Swaziland, and it is important that this should not continue to be sold at a loss.

Six years ago the situation was more or less the same. After very lengthy negotiations the sugar world signed an

international agreement which started in 1978, is in force to-day and is due to expire at the end of 1984. It was designed to maintain the world price within a range acceptable to exporters and importers by regulating the sugar supply on the world market. This was to be achieved, first, by annual export quotas which could not be exceeded, could be reduced to a minimum, increased in stages or suspended altogether in response to downward or upward price movements serving as indicators of the excess or scarcity of sugar on the market. Second, each exporter was to accumulate in stages a share of 2.5m tonnes of special stocks and keep them uncommitted in country of origin under control of the International Sugar Organisation. These were to be used when a sudden sugar shortage pushed the price towards the upper limit of the range. To stop this trend and prevent the price moving outside the range, the special stocks would be released for prompt sale and shipment.

It was a very carefully constructed arrangement but unfortunately it did not work. The majority of exporting members of the ISA believe this was because the EEC, one of the largest sugar exporters, did not join the agreement. While others were restricting exports and accumulating stocks, the EEC expanded production and exported more sugar, thereby neutralising the effect of the agreement. These exporters maintain that with EEC participation the agreement could, with a few improvements, perform satisfactorily. But the EEC believe that its non-participation does not explain everything, and that a quota agreement cannot work because for political and other reasons, quotas are set too high and are unrealistic. They propose a new approach which they are prepared to negotiate in earnest.

Both sides may be right, but this will not make the Geneva negotiation any easier. Everybody agrees that no future agreement can work without the EEC, who will not accept a quota type arrangement. The others are not convinced that the EEC's alternative can work effectively. The Community considers that not all exporters should be treated alike. The burden of exporters' obligations and sacrifices should be spread so that broader backs carry a heavier load. The ACP should try hard to retain this notion throughout the conference.

The first group comprising the ten major exporters which account for approximately 80% of the trade, would undertake to regulate their exports by accumulating and releasing nationally-held but internationally-controlled stocks of 5/6m. tonnes. Stocking and destocking would follow from price trends within a given range as at present. If this failed to control the price, there would be auxiliary measures in production, consumption and marketing in each country, according to production types and patterns.

They could consist of reducing cultivation, switching production to alcohol, holding supplementary reserve stocks, restricting exports etc.

The second group, of smaller producers, who together export no more than 500,000 tonnes, would be entitled to export freely within certain limits and without stocking obligations. No doubt some ACP countries would be in this group. The third group of about 15 remaining medium exporters would carry on with quotas and a limited stock undertaking as at present, provided (a) their quotas were fixed realistically to aggregate about 20% of the free market, and (b) in times of very low prices their quotas could be reduced by up to 25% if necessary. ACP countries in this group would be on familiar ground. They would chiefly want to avoid heavy quota restrictions and stock obligations.

The traditional and EEC approaches are like two sides of a coin. One side seeks to control exports by quotas, the other by stocks - although the arrangements would be very different under the two systems for the big ten. How is a compromise to be achieved in Geneva?

I must mention one aspect, the Lomé Sugar Protocol, which is of particular relevance to the ACP. For 30 years every international sugar agreement has regarded sugar traded under 'special arrangements' as being outside the world free market. At present the two recognised special arrangements are the Sugar Protocol and Cuba's supplies to socialist countries. One major exporter, a former member of the Commonwealth Sugar Agreement, now proposes that the next ISA should regulate total world sugar including sugar traded under the Lomé Protocol. This would be highly detrimental to the ACP, because the two types of exports - to the EEC under the Protocol, and to all other destinations under the ISA - would be lumped together to give each supplier a much larger quota. Three seriously harmful consequences would result:-

- (a) percentage quota cuts on a higher figure would be far greater,
- (b) as special stocks are also calculated on quota percentages ACP countries would have to hold much larger stocks,
- (c) several ISA provisions are designed to benefit smaller exporters, but if ACP quotas are increased by including Lomé quantities these benefits will disappear.

The abolition of special arrangements will be fiercely opposed by Cuba and the Soviet Union, and the EEC has publicly stated that Lomé supplies should be left out of any future ISA mechanism. With the support of such powerful allies, the ACP must continue to fight to safeguard their interests in Geneva.

Whatever happens it is certain that a perfect international sugar agreement cannot be achieved, and this may lead some cynics to say it is better to leave the world market to sort itself out periodically through cycles of surpluses and shortages, of low and high prices. But high prices are few and far between and during the long years of depression small developing countries like the ACP suffer most, especially those heavily dependent on sugar export earnings. In conclusion, therefore, I do not hesitate to say that, despite half-failures, missed chances and frustrating concessions, we must hope in Geneva for a clean game with the fewest possible losers.