The Politics of Sugarcane

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I have been asked to talk about the politics of sugar.

I would not argue much about whether sugar should be a political commodity. The fact that it is a political commodity, it has been for a long time, and it doubtless will continue to be.

It might be a good thing in some respects if all governments would leave the industry alone to grow sugar and market it, and it certainly would be a good thing if governments allowed sugar production and marketing to be based more on normal economic and commercial criteria, with less protection and less other interference with market economics. However, that day is not near at hand. Governments have sugar policies and sugar politics, domestically and internationally, and they will continue to do so.

It is not my purpose to talk about strictly domestic policies, but rather the international side. International sugar politics are brought into a common focus in the International Sugar Agreement and it is about the workings of that agreement and its prospects that I intend to talk.

The Agreement, which was negotiated in 1977, had nearly two years of hard times. Prices were too low. Now it is producing results, and I think both sugar exporting and importing countries can be glad we have an agreement.

The Agreement, for those of you who may not be too familiar with it, is intended to achieve stable conditions in the international trade in sugar, at price levels which are remunerative to producers and equitable to consumers, and to promote equilibrium between supply and demand for sugar within an expanding world sugar trade. There are a number of other important objectives, but all of these either contribute to, or may be expected to flow from, the accomplishment of central objectives I have just cited.

The intended means of accomplishment, in the circumstances of low prices we had when the Agreement came into effect, is, essentially, a system of export quotas and stock building obligations. The stock building obligations are a responsibility of the exporting countries, but are intended to be assisted financially through contributions levied on sugar exported or imported by member countries and loans from the funds so acquired to the exporting members which hold the
We have 58 member countries, 42 exporters and 16 importers, including all the major exporters except the European Community and the most important importers, though not most of the less sizeable importing countries.

The exporting countries which joined the Agreement have carried out their responsibilities. They have abided by their export quotas while quotas were in effect and they have met their obligations to accumulate special stocks.

In spite of this good performance, the Agreement could hardly be considered a success for the first year and nine months after it came into effect on January 1, 1978. The intended price range of the Agreement is 11 to 21 US cents per pound for raw sugar. As against this, the ISA daily price in 1978 averaged 7.81 cents, varying from a high of 9.30 to a low of 6.03, and in the first nine months of 1979 it averaged around 8.40 cents, with a high of 10.59, this in September, and a low of 7.42. There was a definite improvement in September, but on October 15, 1979, the 15 day average ISA prevailing price still stood below 11 cents a pound.

Now these prices are not remunerative to any producers that I know of, and, in this sense, the Agreement could not be said to be working successfully.

In some other senses it was working. The first test of course is what would have happened without it. While no one can measure at all precisely what would have been, the experts I know are unanimous, or nearly so, that prices in the low period of 78-79 would have been substantially still lower had there been no agreement. Without export quotas and stocks laid away, there would have been more sugar on the market and this would have had an adverse effect on prices, even already low prices. One experienced observer says perhaps 30-35% lower prices. The exporting countries have benefited by this margin, or whatever the margin has been.

The second test is the conditions that were being established for the future, what would happen now and in the future, with the Sugar Agreement and without it.

What already has happened is a rather rapid increase in prices in the last months of 1979 and the beginning of 1980. Between mid-October and mid-January the price went from below the 11 cent minimum to above the level of 15 cents, where all export quotas were suspended, and, in doing this, it passed through the action band of 13 to 15 cents, where quotas are to be increased, in the two month period from mid-November to mid-January. On January 24 the ISA daily price reached 20 cents.

This represents a success for the Agreement, quite obviously for the exporters,
but I think for the importers too, considering the likely alternative.

Without the Agreement, the low prices of 78 and 79 would have been lower. There would have been no export quotas, but lower prices would soon have begun to mean lower production as the most sub-marginal producers ceased to plant or to grind. It would have meant still lower prices for consumers at the time, but the lower production that would inevitably have followed still lower prices would very probably have been followed, sooner or later, by a shortage and a sharp rise in prices, sharper than that which we have had. And this is what the sugar importing countries should bear in mind. I’m sure they would not want a repeat of 1974, and this is what the lack of an Agreement sooner or later would have brought about.

The prices we have had for the past two years and the Agreement’s quota provisions have meant maintenance of at least a reasonable level of production and productive capacity, and the higher prices we have now will mean increased production. I think they will mean enough production to meet all real non-speculative needs at equitable prices.

Up to a point, I think the recent increase in prices can be considered a success for the Agreement. Prices have risen to levels where they ought to be, where market forces can be allowed to govern, where most producers can make some money, and where importers, if they want to avoid really high prices, should not complain. In any case, after the low and unremunerative prices of the past three years, I think importers should not begrudge the exporting countries a decent price of sugar for a while. The question and problem we have now, however, is whether prices will go too high.

I have already mentioned the sharp rise in world sugar prices since September. Now of course this did not result simply from the cumulative effects of the Sugar Agreement. The Agreement did have the effect of keeping off the market the 2 million tons of sugar which members have been obliged to accumulate in special stocks in 1978 and 79. It certainly kept additional quantities off the market until recently because of export quotas, and it doubtless meant reduced plantings and grindings by exporting member countries, though it is impossible to quantify these effects with even a reasonable degree of accuracy.

The additional factors we have seen operating in the last few months include poor crop results, actual or anticipated, in a number of important producing countries — these include Cuba, India, Thailand and the Soviet Union — which have led to estimates of a negative production/consumption balance for the current year, and some significant factors outside the purview of the sugar industry, notably the growing mistrust of currencies, which led to a move toward metals and other commodities in the late months of last year. Nor can we dismiss speculation as a factor.

A question that puzzles me is why the New York spot price has been per-
sistently lower than the London price, especially in recent months, even though they are calculated on a basis that makes them comparable. In December the New York daily spot price averaged 79 points (i.e. 79/100 of a cent) lower than the London price, and it also was substantially lower in January. New York is five hours behind London, so you might expect somewhat lower average daily prices in a falling market, but this has been a rising market, in which, all things being equal, the average New York daily price should slightly exceed the London daily price.

Both of these prices of course are more artificial than real, and they are arrived at by consulting quite different people, but this does not make readily apparent why there should be a bias, to be higher or lower, on the part of one as compared to the other. I don’t know why this difference has existed, but I’d like to find out.

Incidentally, the use of the lower New York spot price, which was reinstituted in August and which the Sugar Organization began to use along with the London price in October, meant a delay in the suspension of export quotas as compared to what would have happened if we had continued to use only the London price. On the basis of the London price alone, the ISA prevailing price would have passed the trigger point for the release of all quotas on December 21, or some three weeks earlier than it was reached, on January 15.

Now, as to our problems, aside from the initial situation we faced, an excess supply of sugar in the world and too low prices, the main problems of the Sugar Agreement and the International Sugar Organization — our current political problems — have been difficulties of non-participation. Specifically, we have had three problems: the question whether the largest importer, the United States, could participate definitively in the Agreement; the non-participation of a large number of smaller but still significant importing countries; and, probably most important, the non-participation of the European Community, which has become the largest exporter to the world free market.

The problem of the United States in moving from provisional to definitive participation in the Agreement and the Organization has been the lack of approval by the Senate for ratification of the Agreement and the lack of legislative authority to implement the Agreement’s provisions for contributions to the Stock Financing Fund.

The first of these problems has now been remedied; the Senate gave its advice and consent on November 30, by a vote of 80 to 11, and the ratification process was completed on January 2. Needless to say, this action was an important boost to the Agreement; it means continued U. S. participation in the Agreement and removal of the doubt which had been casting a large shadow over our prospects.

We hope that the implementing legislation for the United States to ensure the
payment of contributions for the Stock Financing Fund will follow shortly. Without it, and without the participation of the US, other members have considered that their own implementation would be discriminatory and the whole project — the Stock Financing Fund — has had to be deferred. However, the Ways and Means Committee has reported this legislation to the House of Representatives and we hope action on it will be completed in the very near future.

Our second problem, the non-participation of other importers, is a difficult problem to deal with. Of course participation or non-participation is a question for each prospective member to decide in the light of its own interests. We hope, however, that, in considering participation, importing countries which are not now members will take a broad and long-term view of their interests. It makes me a little sad, in fact, to consider that nearly all of these countries are developing countries, and they are not showing, in this instance, the solidarity with their developing country sugar producing friends to which they have so strongly subscribed in many world forums.

Part of this problem is that a high percentage of the imports of many of these non-members comes from exporting non-members, and this contributes to relatively unrestrained exports by those non-members, and this contributes in turn to the difficulty of resolving our third problem.

That problem, which probably has been our most serious problem, is the non-participation by the EEC. The Community is not a member of our Organization and it does not assume any equivalent obligations. Hence, while our exporting members limited and reduced their exports in an effort to right the balance of supply and demand, the Community has undertaken no equivalent restraint and continued and increased a high level of exports based on heavy subsidization. Sugar export subsidies cost the Community something around $840 million in 1978 and close to a billion dollars in 1979, and the amount of the subsidy per pound frequently was well above the world price. With this regime, the EEC has moved from a net importer of sugar as recently as 1976 to a very major net exporter, and the largest exporter to the world free market.

Understandably, our exporting members feel they have a grievance.

While we continue to hope for Community participation in the Agreement, or for close co-operation, the prospect looks pretty dim. The Commission has proposed cutbacks in quotas in the hope of reducing the burden of export subsidies. For the next five years it has proposed to reduce the A quota from 9,136,000 tons to 8,686,000 tons and the B quota from 27½% to 20% of the A quota. This would mean a total reduction of 1,254,000 tons of subsidized sugar.

However, these proposals have already met strong opposition, based mainly on the politically strong farm area interests which are largely responsible for the
Community's sugar policy. These political interests are strong, and their opposition has been encouraged by the prospect of reduction of world sugar stocks and the rise in world market prices, which encourage the public in the Community countries to think a very high level of European production is needed and have the effect of decreasing the cost of overproduction in the Community by reducing the cost of export subsidies.

The lack of effective restraints on production when prices are low is not consistent with our members' view of obligations under the Agreement.

The present Sugar Agreement has three years to run, even without extension, and it is too early to think very hard about what changes should be made in the next one, aside from some arrangement for Community participation. One thing most of us have concluded from the recent experience, however, is that the band of prices which activate increases or decreases in the global export quota is too narrow.

For prices moving upward, the global quota is increased by 5 per cent at 13 cents, 5 per cent at 14 cents, and 5 per cent at 14½ cents, and all quotas are suspended at 15 cents. The prevailing price moved through all of these trigger points in a period of just two months, from November 12 last year, when it was below 13 cents, to January 14, when it was over 15 cents for the necessary five days. This does not afford much opportunity to test the market with additional supplies before all quota restraints are gone.

Of course many of our exporting members would say we wouldn't have moved through the action band so fast if we had adjusted the prices in the Agreement upward when we should have done so, by which they mean last November. However, there were what seemed good and adequate reasons at the time why some members opposed an upward adjustment in prices at our meetings in November. In any case, it was agreed to review the prices in the Agreement early in the new year, and it has been agreed to start this review towards the end of this month and complete it in March.

Under the pertinent provisions of the Agreement, any adjustment of prices must maintain the difference between the minimum and maximum prices of the Agreement, i.e. a difference of 10 cents a pound. Since the effects of inflation or deflation and of changes in exchange rates is a major part of the basis of the price review, I think it is generally accepted, though not mandatory in the words of the Agreement, that an adjustment of the upper and lower prices would be accompanied by a similar adjustment of the trigger point prices. For instance, if the minimum and maximum prices are raised from the present 11 and 21 cents to 12 and 22 cents, the trigger point for mandatory release of export quotas probably would be raised from 15 to 16 and the trigger for mandatory reinstatement of quotas would be 15 instead of 14. An agreement to this effect in March, therefore, would mean mandatory reinstatement of quotas if the prevailing price is then below 15 cents.
I should note in this context, however, that a change in this direction in March would not mean very much for 1980 if there have been no quotas in effect until then since export deliveries and sales for early delivery during the period when there are no quotas need not be counted in the reinstated quotas.

In these circumstances, aside from the 2 million tons of special stocks our exporting members retain, the supply of sugar on the world market and the price of sugar for the remainder of 1980 is likely to be fully subject to commercial market factors, to the extent they are ever allowed to operate for sugar, and not dependent on further actions of the International Sugar Organization. The actions under the Sugar Agreement which will continue to be felt in 1980 have already taken place in 1978 and 1979, notably the limits on exports and the withdrawal of sugar from the market to accumulate special stocks which were enforced in those years.

In addition to the price review, we are also embarking on another major exercise in March, and that is the renegotiation of the basic export tonnages in the Agreement. I suspect this renegotiation will be taken a little less seriously by our members now that quotas are suspended than it might have been in other circumstances, but it is still taken seriously enough since the results could be very important to exporting countries if prices should fall and limitations on exports should be re-established.

The basis of the renegotiation is provided in the Agreement, but suffice it to say that it has a lot to do with export performance in the first two years of the Agreement. In fact there is a fall back formula in the Agreement in case the negotiation does not produce agreed results and this depends essentially on the old basic export tonnages plus export performance.

Neither the renegotiation nor the fall back formula, if it is used, is likely to produce any very drastic changes for 1980, though greater changes are possible in the ensuing years as we move farther from the time the Agreement was negotiated. There will also be important changes for some of our smaller producer members who will benefit from the special provision made for the expansion projects they registered when the Agreement came into force.

What else of the future?

For the immediate future, the experts are predicting a balance in the current crop year — from September/October 1979 to the same date in 1980 — of some 3 to 4 million tons excess of consumption over production. These estimates of course are a major reason for the strong increase in prices. They do not lead us to a really clear picture, however, because there is no clear picture of the level of existing stocks in relation to normal commercial holdings. The market must think stocks are not very high, at least not as high as they have been assumed to be. However, one of the foremost experts, an expert with a good reputation for objectivity, says
there will be a free market export availability of more than one million tons over requirements this year.

This estimate excludes the special stocks which our exporters hold under the provisions of the Sugar Agreement. Some rumors to the contrary notwithstanding, these stocks do exist, and, with some minor discrepancies, in the amounts intended. As of December 31, they amounted to 2,004,775 tons against the 2 million tons intended under the Agreement. They of course have been verified by our inspectors on a pre-determined schedule.

These special stocks will not come on the market unless the 15 day average prevailing price passes the trigger points set in the Agreement, beginning at 19 cents. If it does pass that point, and it now looks very much as if it will, the presumption is that one third of the exporting members' total stockholding obligation, or 833,000 tons, will be released on to the market. Another 833,000 tons is to be released at 20 cents. I think these supplies are very likely to cool the market.

Even without these special stocks, it seems reasonable to suppose there is enough sugar to meet all requirements and there will be no shortage. On the other hand, prices should remain strong throughout the year.

It also seems reasonable to expect relatively favorable prices for the next few years, provided there is not an explosion of increased production but a moderate expansion in line with the anticipated gradual increase in demand.

In the longer run, the FAO has recently produced projections showing a 2.6 per cent a year increase in production for 1976-1985, with developing countries accounting for 70 per cent of the increase, stimulated primarily by expanding domestic markets. Their consumption estimates also show an annual increase of 2.6 per cent for the same period. Developing countries will produce, import, and eat more sugar, they say, and developed countries will import less.

One factor in the developed country markets is the increasing use of high fructose corn syrup (or isoglucose) in place of sugar, particularly in the United States. There is no doubt the growth of this product will continue; the question is how much, and this is a function of the price of sugar and the price of corn, among other things, not excluding political factors.

Alternative use of sugar cane to produce alcohol for motor fuel also is a potentially important consideration, particularly as oil prices increase. This could be especially significant as a long-run factor, though, in view of location and other factors, it should not be assumed that cane supplies can readily be shifted back and forth between alcohol and sugar production.

In the short run and the long run we of course want to control the sugar cycle, for the benefit of producers and consumers. The next few years should tell us a lot, perhaps especially the next few months.