Committee II - Expansion of Trade

SUGAR

I. General characteristics of the market

1. Sugar sales in world markets are influenced to a large extent by preferential systems. Of total world exports in 1958 (13.6 million tons) less than half (6.3 million tons) was covered by arrangements under the International Sugar Agreement. The rest was traded under special arrangements at prices well above those prevailing in the free market. Among these arrangements the United States Sugar Act provides for the importation from certain foreign suppliers of fixed tonnage quotas and a certain share in the growth of United States consumption requirements. The Commonwealth Sugar Agreement embodies contractual arrangements for the purchase, from the main Commonwealth producers, of a given tonnage at a price negotiated annually. Preferential arrangements are also operated by certain other countries. Cane sugar producers not covered by such special arrangements are faced with competition from these countries as well as from others applying a variety of systems protecting the output of sugar beet.

II. General characteristics of trade

2. The level of world sugar exports has in recent years (1955-59) fluctuated between 14 and 15½ million tons (raw basis). In 1959 world net exports amounted to 12.9 million tons. Basic export tonnages under the Sugar Agreement were 6.4 million tons, and initial export quotas for 1960 were 5.3 million tons; the final quotas in effect for 1960 were approximately 6.8 million tons.

3. In 1959 Cuba exported approximately 5 million tons, the Philippines about 1 million tons; the Federation of the British West Indies, Brazil, the Dominican Republic, Taiwan and Australia exported some 600 - 700,000 tons, and Mauritius and Peru about 500,000 tons each. Other substantial
exporters, with between 100-300,000 tons, were British Guiana, Guadeloupe, Mexico, Mozambique, the French Department of Réunion, Fiji, Union of South Africa, Poland and Czechoslovakia. For some of these countries, the proceeds from sugar sales constituted a major part of their total export earnings. The United States of America, the United Kingdom, Japan and Canada were by far the largest importers in 1959 accounting together for about 8 million tons. Net imports into Europe (including Eastern Europe, but excluding the USSR) were on an increase until 1957, but since then have shown a downward trend. Among the other areas, net imports into Latin America, Africa, Asia and Oceania have changed little in volume over the past few years. Only in North America has a slight increase occurred.

III. Production, consumption and trade

4. World production of sugar reached its pre-war level in 1947/49, and from then on its upswing has been more rapid than that of any other agricultural commodity. This trend was due both to an increase in capacity of existing producers and to the introduction of new capacity where none had existed before. Thus today a large number of former importers in Africa, Asia, as well as in Europe, produce an increasing part of the sugar they consume. The process has by no means stopped, a number of countries having provisions in their investment programmes for further increases in sugar producing capacity.

5. During the period from 1950 to 1958, the increases in consumption kept pace broadly with the increases in production: however, there were imbalances between supply and demand which caused wide price swings in the world market. In the last two years, however, a lower rate of growth in consumption has been in evidence, than in production with the result that stocks have increased, and the rise in prices has restricted demand. Due to the increase in domestic production in the importing countries, many of which have become self-sufficient, traditional sugar exporters have not derived the full benefit of increases in consumption.
6. Sugar prices in the free market have fluctuated violently over the past five years, as reflected in the annual averages. From 3.24 cents per pound in 1955, the quotation for Cuban sugar sold to destinations other than the United States rose to 3.46 cents in 1956 and to 5.16 cents in 1957 (as a result of the Suez crisis). It fell to 3.50 cents in 1958 and to 2.97 cents in 1959. In July of that year a bottom level of 2.55 cents was recorded. Subsequently prices recovered in response to action taken by the Sugar Council, because of large purchases by the USSR of Cuban sugar, and on account of higher import requirements in Europe occasioned by a smaller beet crop in that area. In mid-July 1960 the price had reached 3.30 cents.

7. The price for consumers is of great importance; there is a wide range of prices at which sugar is available. Among 121 countries investigated by the FAO it was found that in seventeen of them retail prices (in 1957) were below 15 US cents per kg. and in eight countries over 40 cents. In seventy-three countries prices were below 25 cents and in forty-eight countries they ranged from 25 to 79 cents. Although production and distribution costs vary considerably the extreme width of the range is explained mainly by the great diversity of taxes, duties and other fiscal elements. The depressing effect of taxation on consumption is the greater, since the higher prices are generally found in low and very low income countries where the price elasticity is considerable.
8. Sugar production has been tending upwards in all regions. In the five principal exporting countries sugar production increased from 6.02 million metric tons in the 1934/38 period to 9.45 million metric tons in 1954/58, which represents an increase of about 57 per cent. At the same time exports from the same five countries increased from 5.18 million metric tons in 1934/38 to almost 8 million metric tons in 1954/58, representing an increase of about 54 per cent. The production pattern of the five principal importing countries shows the following corresponding figures: production expanded from 4.54 million metric tons to 6.48 million metric tons, which constitutes a 43 per cent increase. Similarly, imports rose from 7.17 million metric tons to 8.34 million metric tons, constituting a 16 per cent increase. While in the five principal exporting countries all the sugar produced comes from sugar cane, in the five principal importing countries cane sugar output accounted for 1.31 million tons in 1934-38 and for 1.48 million tons in 1954-58 whereas beet sugar rose from 3.23 to 5.00 million tons in the two periods; the relative increase in production of the latter countries was 13 per cent in respect of sugar cane and 55 per cent in respect of sugar beet (both in terms of raw sugar). Production of beet sugar, which is substantially protected in many countries and may lead to self-sufficiency in some, is rising faster than cane sugar, as output of the latter is controlled in certain countries due to the decline in the opportunities for selling to former import markets; exports are controlled by the International Sugar Agreement, due to the loss of opportunities of selling to former import markets. In some countries production has been rising; for example, in the Federal Republic of Germany production, expressed in millions of metric tons, rose from 0.56 in the average period 1935/36 - 1938/39 to 0.83 in the period 1948/49 - 1952/53 and to 1.39 in 1954/55 - 1958/59, while imports declined from 0.52 in 1948/49 - 1952/53 to 0.27 in 1954/55 - 1958/59. In the last year of reference (1958/59) production, expressed as a percentage of domestic consumption, reached 103 per cent (but this year was an extraordinary one in respect of the acreage) by
contrast with 64 per cent in the average from 1948/49 - 1952/53. In the meantime Germany has limited sales of domestically-produced sugar and has at the same time imported considerable quantities of sugar; imports of sugar beets into the Federal Republic have been liberalized and are free from taxes. In this connexion reference might be made to measures applied recently in certain countries, such as the United States, for increasing subsidized production. Production in the United States is regulated, however, within the framework of legislation which reserves a substantial share of the United States market for certain foreign suppliers.

9. Reasons of a political, social or strategic nature have been put forward to justify certain systems of protection. Certain recent measures, based in part on political factors, may influence the traditional patterns of the sugar trade and may have an adverse effect on the expansion of that trade. For example, early in 1960 the USSR became a major buyer of Cuban production with the signing of a five-year agreement for the purchase of 1 million tons of sugar per year; and a five-year contract was signed by Cuba with mainland China providing for annual purchases of 500,000 tons, and an additional 500,000 tons were contracted for in November, 20 per cent of which to be paid for in currency. The Government of Cuba declared its intention to maintain the export price at a minimum of 3.25 cents and probably staved off a collapse of the market. In December 1960 the International Sugar Council established provisional export quotas for 1961 at 85 per cent of basic tonnages; this figure was reduced in February 1961 to 82$\frac{1}{2}$ per cent.

10. As regards prospects, in the highest income areas per capita consumption appears to be approaching the saturation level, and in other areas the rate of increase has slowed down. For the world as a whole (excluding the USSR and mainland China) there was a distinct slowing down in the rate of increase of consumption in recent years, while the annual compound rate of increase in 1952-56 was 5.3 per cent, the figure for the period 1957-61 is estimated at about 3.2 per cent. According to FAO
estimates, the increase of consumption in 1961 over 1960 may be estimated at about 1 million tons; the estimated increase in production noted above would thus leave a surplus of some 4 million tons in the current year. For comparison, the Sugar Council's first estimate of free market requirements for 1961 amounted to about 6.4 million tons. In 1961, the export quotas of the European industrialized countries, under the International Sugar Agreement, total 657,000 tons.

IV. Non-tariff devices

11. Certain countries, chiefly industrial countries which are traditional sugar importing countries are resorting to non-tariff devices to protect their sugar production: 63 per cent of sugar imports are subject to quantitative restrictions, 32 per cent to deficiency payments and 26 per cent to import charges. It may be said that the consultations have disclosed all the known non-tariff devices, whether they are applied singly or in combination with very complex techniques, sometimes going as far as a ban on imports. Only 4 per cent of imports are not subject to non-tariff measures. So far as exports are concerned 78 per cent are not protected by any non-tariff devices and hence are subject to the normal rules of trade.

V. Effects of non-tariff devices on trade

12. While it is difficult to estimate to what extent non-tariff devices affected trade, sugar is the one commodity best suited for an analysis of this kind, keeping in mind the principle of the most rational utilization of existing resources in the producing countries and the great disparity between the economic factors which influence the production of cane sugar and beet sugar.

13. The Committee feels that certain changes already in effect or only under discussion, regarding the import policy for sugar for certain countries, may lead to a substantial modification in the traditional patterns of trade for this product. In many countries, imports, in so far as authorized, are used, through import charges, as a source of revenue for programmes to promote home production. In many cases, the guaranteed minimum prices for national production are three or four times the commodity's price in the international market.
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