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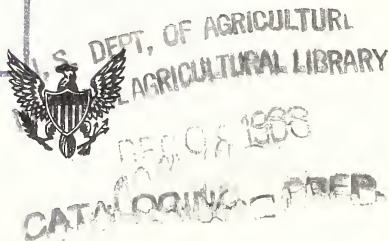
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WORLD SUGAR SITUATION

(By Gordon E. Patty, Agricultural Economist, Foreign Agricultural Service, USDA)

The 1976/77 sugar year will be characterized by ample supplies. Production will be an all-time record high of 87 million metric tons, raw value. While consumption will increase by about 2 million tons, there will still be an excess of production of some 3 to 4 million tons. Thus, carryover stocks at the end of the 1976-77 year will be up considerably.

LOWER WORLD PRICES

Sugar prices were very stable from mid-1975 to July 1976. Then there was a decided decline, probably precipitated by several factors. Prospects of a dismal crop in Western Europe due to lack of rainfall had prevented a price decline during early 1976. As beneficial rains increased prospects for a larger harvest, there were several other happenings that acted as price depressants. Harvests had just begun in several major sugar producing Southern Hemisphere countries and bumper crops of cane were being cut. Other reasons included (1) re-entry of Brazil into the market after prohibiting exports for several months, (2) prospects of a larger crop in the USSR with little or no imports needed from countries other than Cuba for the next year, (3) buyers restricting purchases as they were well stocked, (4) increasing use of high fructose corn syrup, and (5) more long-term arrangements being made.

LONG-TERM ARRANGEMENTS

The long-term arrangements may account annually for about 5 million tons of sugar, out of a total of around 15 million tons of free market sugar. There are some 10 exporting countries and a like number of importing countries involved. The largest contracts are those between United States firms and the Philippines, and a 5-year contract for 3 million tons between Australia and Japan. The latter is the only long-term arrangement for a specified price. The others are tied in some way to prevailing prices in the market. Following the expiration of the International Sugar Agreement at the end of 1973 and the demise of the U.S. Sugar Act at the end of 1974, it was to be expected that there would be a number of bilaterals. Most of these arrangements run through 1980, and will probably have some dampening effect on prices.

PROCESSING CAPACITY EXPENDING

Although recent sugar prices have been below the cost of production in many producing countries, there are still plans for building a num-

ber of new mills. The construction of new mills will be primarily in the developing countries. Due to the large investment required for mill construction, there is a tremendous amount of consideration given before deciding on building facilities.

The biggest unknown in any feasibility study is the prospect for the market. Countries contemplating substantial increases in facilities include Mexico, Malagasy, Ivory Coast, Tunisia, Nigeria, Syria, Sudan, Tanzania, Panama, Venezuela and Indonesia. With consumption expanding about 2 million tons per year, it would take 30 or more new mills each year to keep up with growing requirements. Therefore, there could be construction of even more milling facilities.

HIGH-FRUCTOSE CORN SYRUP PRODUCTION INCREASING

The use of high fructose corn syrup (HFCS) has so far been largely confined to the United States. In 1976 the use in the U.S. may amount to 800,000 to 850,000 tons, up from 500,000 tons in 1975. A similar further increase is likely for 1977. There has, however, been some slow down in the planned expansion of HFCS processing facilities due to the narrowing of the gap between prices of sugar and HFCS. HFCS production in the EC in 1975 is estimated at 100,000 metric tons, and capacities are being expanded to about 500,000 metric tons. A 100,000 metric-ton facility is being built in the Netherlands as well as another such facility in the United Kingdom. As this product is being produced in developed countries, the developing countries will be affected in regard to the sugar they export to such countries.

THE EUROPEAN COMMUNITY

Production of sugar in the EC during 1976-77 will somewhat exceed consumption requirements. As 1.3 million metric tons are to be imported by the United Kingdom from former Commonwealth Agreement developing supplier countries, there will be at least 1 million tons of sugar available for export. This excess was produced despite severe drought, especially in France and the United Kingdom. Prices of sugar beets and of sugar were increased by about 8 percent for 1976-77 under the Common Agricultural Policy for sugar. Acreages and production in the EC are not likely to be reduced substantially in the next year. However, in France there may be some shift from sugar beets into grains.

INTERNATIONAL SUGAR AGREEMENT

A prime concern in the near future for both importing and exporting countries are the preparations for the negotiation of an International Sugar Agreement. It is planned to have a negotiating conference in Geneva under the auspices of the United Nations Conference on Trade and Development beginning in April 1977. Particular attention will be given to buffer stock schemes, an export quota system backed by intervention stock scheme or an export quota system backed by minimum stock provisions. Figuring prominently in development of any new ISA will be the status of bilateral agreements, prices at the time of the conference, and the outlook for United States supplies.

DEVELOPMENTS IN 1977

Almost everyone remembers 1974 as the year of sugar. The year 1977 might be considered the offspring of that year. There will be much activity on the sugar front in 1977, but prices almost certainly will not increase to the unprecedented heights of 1974. The record high prices of 1974 brought about a quick response in increased acreages in beet areas of the United States and Western Europe. Although it took longer in the cane producing areas, they also increased production. At the same time that production was increasing, there was a considerable drop-off in consumer demand in such countries as Canada, Japan and the United States. Worldwide production for 1976-77 will outstrip consumption and carryover stocks at the end of the year will amount to about 20 million metric tons. This would be about one-fourth of the world's annual requirements, and while not excessive, is ample for normal operations of refiners and distributors.

The International Trade Commission is now in the middle of hearings to determine whether the domestic sugar industry is being harmed by increased imports. While the ITC normally would have six months or until April to submit its report, they have been instructed to speed it up. The outcome of this investigation could have a bearing on future U.S. sugar policy.