MARKET PROSPECTS FOR COMMONWEALTH CARIBBEAN SUGAR IN THE E.E.C.*

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Introduction

I have tried to follow the continuing discussion on the issue and I have had the opportunity of reading recently the comprehensive and very useful study of the problem by Norman Girwar.[1] Most of the views expressed so far came from the sugar industry. After looking at them a number of questions were raised in my mind and I felt that the subject was far from exhausted. In fact, I began to feel some uneasiness at the state of our preparedness. I have not been involved in the official discussions and it is possible that more information has been gathered and more has taken place than I am aware of. In that case I am hoping that this Paper would serve the good purpose of helping to widen and deepen the public discussion on the topic and of enabling those who have taken part in the official discussions and are here to assist in this discussion.

The topic is an important one. It is concerned with the marketing of abour 75 per cent of our total sugar exports.

It may be claimed that the EEC sugar negotiations which are to take place in 1975 are a long way off. However, diplomatic activity in connection with this problem is needed on a continuing basis and other negotiations are coming up -- renewal of the ISA (1973), relationship of Associables and Associates with the EEC (1973), and renewal of the US Sugar Act (1974) -- which have a strong bearing on this problem and which require that our position on the EEC issue is closely worked out.

The Present Position

We have the commitment of the Enlarged EEC that it will have as its *firm purpose* the safeguarding of the interests of Commonwealth developing countries whose economies depend to a considerable extent on sugar. This condition has been interpreted by the British Government as *a specific and moral commitment*[2] and by Britain and the developing Commonwealth sugar exporting countries as a *firm assurance of a secure and continuing market in the Enlarged EEC on fair terms for the quantities of sugar covered by the Commonwealth Sugar Agreement*[3] for developing member countries.

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* This paper was completed before the Commonwealth Conference on the EEC Sugar Problem beginning March 28th. I have benefited from discussions held with a number of persons during the course of preparing this paper but particularly with R. Norris of WISA and S. Girwar of TICFA. However, I retain responsibility for the opinions expressed.

1 N. Girwar, *The Future of Commonwealth Sugar in the Enlarged EEC*, December, 1972.

2 Lancaster House Statement by Britain and Developing Member Countries of the CSA, June, 1971.

3 *Ibid.*

These interpretations would seem strange when compared with the text of the Agreement; but they must be seen in the light of the failure of Britain to secure the *bankable assurances* for sugar promised to Commonwealth developing countries and therefore as a face-saving exercise. That they should be accepted by the developing Commonwealth countries may appear even more surprising. But this acceptance must be seen in the context of the feeling on the part of these countries that they could not force Britain to negotiate a more precise commitment; and as a second best, acceptance could give them a leverage on Britain when the sugar regulations of the EEC are actually being renegotiated in 1975. Did this result represent a failure of the diplomacy of the developing Commonwealth countries? This question is a difficult one. It would depend on a number of considerations which we cannot take up here. The question is not of much significance now. More important are the considerations which will determine how we are likely to fare when the EEC sugar policy is being reviewed.

Prospects

The EEC commitment is being discussed mainly in terms of quantity. This constitutes a weakness which does not appear as yet to be fully grasped. The EEC sugar price (raw equivalent, French Overseas Departments) at £82.06 per ton is much higher than the CSA price at £57 - £61 per ton (f.o.b. Commonwealth developing countries). Even though there is mention in the interpretation of *fair terms*, the existing gap between the two prices gives such flexibility to the negotiating position of the EEC that even if one could put a specific quantity interpretation on the commitment, concessions could be obtained by the EEC on quantity through a trade off with price. Thus what is already a weak position on quantity arising from vagueness is further weakened. There are indications that this situation would be exploited. In a Paper entitled *Organisation of the Sugar Market within the EEC* Georges Perroud, Secretary General of the International Confederation of European Sugar Beet Growers, argued in September 1971 that:

It could be proposed to the developing country members of the Commonwealth to set the tonnage to be imported into the EEC at a level such as to maintain their present income, taking into account the fact that the imports would be paid at the Community price and that the tonnages sold to the EEC would be marketed in the world market.[1]

Of greater significance is a statement made to French sugar beet producers by the French Minister of Agriculture M. Jacques Chirac in October 1972. He said in part:

During the coming season we shall have to define very exactly the limits which we intend to apply to Commonwealth countries associated with the Community . . . In particular, we must avoid confusing the support which is indispensable for the revenues of developing producer countries, with the systematic defence of certain industrial interests linked to the manufacture and refining of sugarcane.[2]

The basic position of Commonwealth developing countries then is that they have got a commitment from the EEC that their interests will be safeguarded; but the commitment is not specific about quantity, price or length of period over which guarantees will apply. As such, it provides flexibility in the way in which it could be honoured and also in the extent to which interests would be

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1 Girwar, *Op.cit.* p.33.

2 West Indies Chronicle, October 1972, p.406.

protected. And besides considerations such as the British promise to protect our interests, and some moral concern about disruptions to the economies of poor coutries, the end result will depend very much on the supply and demand situation in the EEC, the interest of EEC farmers in increasing beet sugar production and the political influence they can exercise.

There can be no doubt about the interest of beet farmers in increasing production. In harmonising prices when the CAP for sugar came into operation, the EEC had to settle for a high price. Only in West Germany and Italy prices came down and in France, the largest EEC producer, the price paid for the quota established by the EEC was 30 per cent higher than the pre CAP price for sugar. Profitability has been assisted also by technological changes which have led to full mechanisation and substantial increases in yield. In France and Belgium, the two surplus sugar producing countries in the EEC the yield of sugar beet in the 15-year period 1948-52 to 1963-67 went up by 45.5 and 17.3 per cent respectively.[1] In the U.K. between 1943 and 1970 the increase was 50 per cent and in the same period the man hours per acre decreased by 85 per cent.[2]

Sturrock, a Cambridge agricultural economist who has been arguing in recent years for increased beet sugar production in the U.K., has shown in a recent publication[3] that apart from potatoes and vegetables, sugar beet is the most profitable break crop in cereal production in Britain and the most profitable crop in arable farming. A recent survey carried out by the NFU in the U.K. in 1971 and cited by Girwar has shown that if British farmers were free to do so by 1975 they could increase their beet acreage by 65 per cent.[4] We also know of the pressure that is being exercised by the French beet growers for an increased share of the Enlarged EEC sugar market. What we do not seem to know much about are the views of the beet growers in the other EEC countries and the strength of beet sugar growers in France and Belgium as political pressure groups.

The profitability of beet sugar production in Britain and in the EEC have not so far led to substantial increases in production. In Britain acreage quota allocations have been used to keep production to about one-third of requirements. In the EEC premium prices have only been paid up to 105 per cent of estimated consumption (from 1971 100 per cent). Between this level and 135 per cent of quotas, levies are made to meet the cost of disposal but there is a guaranteed minimum price which is about 58 per cent of the intervention price (the guaranteed price for quota production). Beyond 135 per cent the sugar must be disposed of in the world market without any price support. These provisions have helped to curtail expansion; but because profits could be increased for some producers at production levels beyond quotas, a surplus averaging about 1 million tons of sugar annually emerged between 1969 and 1971.

At this level of surplus and with new members of the EEC having a deficit of over 2 million tons, it was felt at the time of the British negotiations for entry (1971) that the Enlarged EEC with annual increases in consumption of about 130,000 tons, would by 1975 easily

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1 J. Marsh & C. Ritson. *Agricultural Policy and the Common Market.* PEP European Series No.16, p.172.

2 F.G. Sturrock & M.C. Thompson, *Sugar Beet.* Agric. Econ. Unit, University of Cambridge, 1972, p.40.

3 *Ibid.*

4 Girwar, *op.cit.* p.34.

accommodate 1.4m. tons of raw sugar per year from developing Commonwealth countries.[1] It was even felt that the phasing-out of the Australian CSA quota of 335,000 tons of raw sugar, after the end of the CSA in 1975, would provide scope for the expansion of production in the Enlarged EEC almost immediately.

In the developing Commonwealth countries there were fears at that time that these calculations could be upset by increased surpluses in the EEC of the Six, which could arise because of a desire on the part of these countries to establish a stong claim to supply the deficit arising from the Enlarged EEC when the CSA came to an end. It is difficult to say to what extent farmers would have increased production and incurred reduced returns for a possible future expansion of production. What was not anticipated at the time, however, was the changed circumstances in the world market from the end of 1971, which caused substantial increases in the price of sugar. This situation has continued up to the present time and the price prospects for the future are good. In this situation sugar producers of the Six do not have to fear low marginal revenue for surplus production. Because of the short crop period of the beet crop and its shorter crop cycle compared with cane,[2] supply could be adjusted more quickly to demand changes. The beet growers of the Six are therefore, in an ideal position to grasp present opportunities in the world market and they have not been slow in their response. Their beet acreage, which remained almost static at about 1,150,000 hectares from the inception of the CAP on sugar, increased to 1,206,000 hectares in the 1972/73 crop. Already there are estimates that the deficit in the Enlarged EEC by 1975 is unlikely to exceed 750,000 tons[3] -- a substantially smaller figure than the 1.4m. tons which the developing Commonwealth countries are expecting to supply.

The supply position of the Enlarged EEC is therefore becoming unfavourable to the developing Commonwealth Countries but although all this is happening before the review of the EEC sugar policy in 1975, it is likely to pose problems in the medium and long run rather than in the short run. The good price prospects in the world market which have helped to aggravate the supply problem in the EEC also helps to provide a solution. As long as the world market situation continues good, the EEC will find it less difficult to meet its obligations to the developing Commonwealth countries.

The EEC has expressed an interest in becoming a member of the International Sugar Agreement. It would want a large export quota under the new Agreement which is to be negotiated later this year. It is not a member of the present Agreement, but when this was being negotiated the EEC made a bid to obtain a quota of 1m. tons. The Enlarged EEC is likely to seek a larger quota and it is not unlikely that in order to obtain such a quota, it could use as its main argument its obligation to the developing Commonwealth countries. In fact, it is even possible that it may want to make its acceptance of 1.4m. tons from these countries conditional upon its obtaining a compensating quota under the ISA.[4] Left to the

1 These figures were obtained from the Financial Times of June 3rd, 1971.

2 Unlike cane it is replanted annually and the period of the crop is only 6 months.

3 Financial Times, February 28th, 1973.

4 There are indications of thinking along these lines in the EEC in the bid by the UK and French delegation at the Ottawa Conference of the International Federation of Agricultural Producers in 1972 to get the Conference to accept such a proposal. See *Cane Farmer*, October 1972.

EEC of the Six this may have been a strong possibility. But the U.K. is now a member and this position, if taken by the Enlarged EEC, would be in conflict with the U.K.'s quantitative interpretation of the obligation to the developing Commonwealth countries. It would appear that an attractive strategy for the EEC could be to use its obligation to the developing Commonwealth countries to bargain for a large ISA quota and having obtained that to treat the Commonwealth supply (over which it would have more control) in future years according to its own evolving interest which is likely to be the phasing-out of such a supply.

My view of our prospects in the EEC then are that some uncertainty is introduced in the short-run because of production increase in the EEC; but that taking account of commitments and the world market situation we are likely to be able to continue to have a guaranteed market for the 725,000 tons of sugar we sell under the CSA.[1] But I want to state firmly that it would not be possible for us to have a *continuing market* in the EEC and we should plan accordingly. There is evidence of this not only in the supply and demand position in Europe but also in our negotiating position as it is evolving. Basically, we have a weak bargaining position. With the CSA the benefits were not always on our side but it was also part of a Commonwealth preferential system which included reverse preferences. The agreement on sugar is within the framework of a relationship with the EEC; but it has been negotiated separately from an Association on Trade Agreement and is not bound up with the grant of reverse preferences. The sugar arrangement does not, therefore, embody reciprocal trade obligations. And we live in a world where there is inadequate recognition of the right of poor countries to produce products in which they may have a comparative advantage.

Our Bargaining Position

It is possible that we are compounding the weakness of our bargaining position by the way we are handling the EEC sugar problem. We regarded the question of quantity as settled; but the EEC countries have suceeded in introducing increasing uncertainty. While they have kept the discussion centred on the question of quantity, they hold in store the unresolved problems of price and period which they could use later on to get concessions on quantity. We on the other hand, have not succeeded in getting arguments established which would help our position on the issues of price and period. In other words, in this whole matter the EEC countries seem to be calling the tune.

To some extent, our weak position arises because we are depending mainly on a member of the EEC to protect our interests. In the light of Britain's position now as a member of the EEC, we cannot expect her to use a well thought-out long-range bargaining strategy on our behalf. This conflict of interest which is involved in her position is growing worse with time because of the increasing political pressure from British beet growers for a larger share of the British sugar market. The desire of the continental EEC farmers to replace the Commonwealth in the U.K. market has naturally aroused greater interest in Britain for self-sufficiency. Britain is, therefore, now in the strange position where although a member of the EEC, she is required to protect the interests of Commonwealth Sugar producers against the interest of EEC sugar producers including her own.

Because of these conflicts of interest it should have been expected that the developing Commonwealth countries would now be taking their own diplomatic initiative, and attempting to develop a common position against the EEC. And the Commonwealth Caribbean, with the largest share in the proposed 1.4m. ton Commonwealth quota, should have been assuming leadership in this direction. At the level of developing Commonwealth countries much requires to be done. A position must be

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1 This is the NPQ for Commonwealth Caribbean countries excluding Belize. Belize NPQ is 20,500 tons.

developed on prices, the period over which guarantees will apply and the arrangement under which their sugar would be accommodated in the EEC. A good case exists for expecting the equivalent of the price paid in the EEC. There is no reason why the high protection afforded relatively rich farmers in the EEC should not be extended to poor countries supplying the same market. An alternative arrangement would entail an import levy on sugar from the developing Commonwealth countries, which will be used to finance price and income support for EEC farmers.

The EEC may argue that their price would be unrelated to cost of production in developing Commonwealth countries. By the time of the negotiations there might not be much in this argument; but even if there were, rather than denying this price to poor countries there would be a case for using part of the price to create a fund which could be used to finance policies geared to improving the efficiency of the industry.

If the EEC insists on a lower price, or as an alternative, the high EEC price on condition that a lower quota is accepted, then the developing Commonwealth countries could bargain for a compromise of the high EEC price for a large proportion of the 1.4m. quota and a lower price for the amount above that proportion. The supply of the latter portion could be made optional. This position might not be too disadvantageous for the Commonwealth Caribbean since, if production levels continue to decline, it would enable the area to maintain supplies to the US market while reducing supplies to the EEC market. Even if the decline were reversed it would provide the flexibility which is necessary to enable the area to attempt a shift to the US market where price and quota prospects in the long-run appear better. The fact that the outlook in the world market appears good in the next decade reduces the risks involved in this flexible approach which could help us to move to a better future distribution of our exports. The two-part pricing arrangement may be acceptable to the EEC since it provides a method of encouraging the Commonwealth Caribbean and possibly other Commonwealth exporters to reduce their supplies to the EEC.

Apart from the level of prices, we have a strong interest in long-term guarantees. The period of about five years over which the establishment cost of a cane crop is amortised has been used as an argument for a *bankable assurance* in the British entry negotiations. But a large part of the investment in sugar production is in factories and for this type of investment a longer period of amortization is required. Even if production were maintained at present levels in the Commonwealth Caribbean, investment is required in factories for capital replacement and because of shifts in areas of production within countries and between countries. Long-term guarantees are necessary in sugar regardless of what one feels about commodity agreements. The fact is that the world trade in sugar is highly organised and artificial. In this situation the sudden termination of a marketing arrangement could expose an exporter to prices which are considerably lower than that obtained under the arrangement. The rolling type of guaranteed period which applied under the CSA prior to 1966 is very appropriate under the circumstances and the eight year forward period under that arrangement is also suitable for cane sugar production.

If these requirements of our industry seem far from the conditions we are likely to obtain, this is no reason for not even attempting to get them advanced in the discussions. One of the problems is that there is an existing arrangement for sugar in the EEC and there is a limit to the extent to which this will be changed to suit our circumstances. A qualification to this is that sugar from outside the EEC will for the first time have a significant place in the EEC market and the special arrangement for this could be influenced by the views of the exporting countries concerned especially if a common approach is worked out among themselves.

The type of arrangement under which sugar from developing countries is accommodated in the EEC is an important aspect of the problem since it could have a bearing on the period over which the guarantees will last, whether shortfalls could be redistributed and whether the guarantees become involved in the bargaining over the grant of reverse preferences to the EEC.

The view which seems to be emerging in the Commonwealth Caribbean on the question of the type of arrangement is that expressed in a recent publication of the Commonwealth Caribbean Regional Secretariat. It states:

It would be very desirable, not only for all the developing Commonwealth sugar producing countries to negotiate jointly with the Expanded Community for a Commonwealth Sugar Quota within the Community, but also that CARIFTA countries should seek a CARIFTA sub quota within the broader quota -- this arrangement would enable CARIFTA countries to redistribute among themselves shortfalls in production in individual CARIFTA countries.[1]

This statement would appear to indicate a call for a Sugar Agreement involving all the developing Commonwealth countries, which is separate from the Association or Trade Agreements selected by each or by groups of them, under the three options available for a relationship with the EEC. This approach has the advantage that the bargaining over sugar would not become associated with the types of relationship selected, or with the grant of reverse preferences. The EEC's commitment on sugar requires the countries benefitting to have a relationship with the EEC; but it is not dependent on the type of relationship selected. If quotas for each country were to be negotiated separately however, there is no doubt that with time the type of relationship selected would influence the concessions on sugar. There is a possibility that all Commonwealth Caribbean countries would be choosing a weak relationship and as such it could be advantageous to them that sugar should be treated separately under a global arrangement.

The CARIFTA view, however, raises certain questions and problems. The commitment of the EEC also included existing Associated countries and in fact from 1972 small quotas have been granted to sugar exporting countries such as the Malagasy Republic. Should these countries not be included also in the global sugar agreement suggested by the Commonwealth Caribbean Regional Secretariat? If not, we shall be bargaining for the anomalous situation in which Commonwealth countries, whether they are associated under the Yaounde Convention or not, would have their sugar under a separate Sugar Agreement; whereas, existing Associated countries would have their sugar treated under the Yaounde Convention. It would seem logical that a global arrangement should cover all the countries supplying sugar under the EEC commitment.

The problem is whether the existing Associated countries would prefer the global sugar arrangement. For that matter, even if only developing Commonwealth countries were involved, the question arises whether Mauritius which has already acceded to the Yaounde Convention would want to join also. These countries might feel that their sugar interests would be better protected if their quotas

1 Commonwealth Caribbean Regional Secretariat, *From Carifta to Caribbean Community.* Guyana Lithographic Col.Ltd., May 1st, 1972, pp.105-106.

were secured under their Association Agreement. Whether there is a separate arrangement for sugar or not will depend a lot on the EEC. It is possible that they may see the advantage in the separate arrangement in that it offers the opportunity of phasing-out sugar supplies from developing countries more easily than if sugar quotas were included under Association or Trade Agreements.

The implication is that the negotiation of sugar quotas under Association or Trade Agreements may not be without some advantages. It would provide greater security for the quotas. For the Commonwealth Caribbean too, with high production costs and the need for a flexible arrangement which could allow a change in the distribution of exports, the treatment of sugar regionally or by country instead of globally could allow the negotiation of marketing conditions which are more suited to our circumstances. Whether these advantages would compensate for any possible adverse effect on our sugar arrangement of a weak relationship with the EEC is an open question.

Whether there is a global arrangement for sugar or not, it is important that the Commonwealth Caribbean should be treated as one unit for quota purposes and be allowed to redistribute shortfalls. The area is likely to be faced with a decline in production in some countries and with expansion in others. Unless shortfalls are met within the area, the Commonwealth Caribbean allocation will decline with time because of the inability of some countries to meet quotas. Belize is not at present a member of the West Indies Sugar Association and her quota allocations are not grouped with the other Commonwealth Caribbean countries. She may not desire such a grouping in the case of her US quota; but she can benefit from a group arrangement with the EEC since, like Guyana, she is in a good position to produce surpluses to meet the shortfalls of other countries in the Area. This arrangement may be one way of increasing the limited economic relationship which Belize has with the other members of CARIFTA.

CONTRIBUTED PAPERS