PROFITABILITY OF THE SUGAR INDUSTRY IN GUYANA

Fred Sukdeo

(University of Guyana)

Abstract

This paper analyses the financial aspects of the sugar industry in Guyana. It focuses on the profitability of the industry after analysing income and revenue accounts. Due to inadequate data for many years researchers were unable to study the financial aspects of this vital industry. Nonetheless, those who work in the industry have experienced the agonies of exploitation. With the availability of more statistical information, we can now attempt to quantify and place into perspective the financial transactions of the industry from the national point of view.

Role of the Sugar Industry

The mainstay of the economy of the majority of less developed countries is the export of one or two commodities. Frequently, it is suggested that these countries should pursue a policy of diversification since this guarantees a solution to their economic problems, but such possibilities are limited in many cases. Lord Campbell[1] has commented that, *If you cannot produce anything else but groundnuts or sugar, you have to go on producing it as long as you can, whatever the price. The alternative is loss of capital investment, unemployment and starvation, and political and social unrest.*[2] -- the dilemma of many countries, including Guyana. However, West Indian economists such as Beckford, Brewster, McIntyre and Thomas[3] have addressed themselves to this dilemma and concluded that there is much scope in the economic development of the Caribbean economy.

Although the present economy of Guyana is now more diversified than in the nineteenth century sugar cane cultivation continues to overwhelm the economic, social, and political structure of the country. The sugar sector of the economy accounts for about 17 per cent of national output and with its by-products contributes about one-third of the total value of domestic exports. This industry provides direct employment for approximately 24,000 families. Taking backward and forward linkages into consideration, it is estimated that about 25 per cent of the population benefit directly or indirectly from the industry. In 1971, the industry paid over $45m. in wages and contributed $6.6m. in taxes. With its other characteristics sugar has to be examined in the context of the whole society, for it is credited to generate incomes in other sectors such as manufacturing, construction, engineering, distribution and services.

In order to analyse the profitability of the sugar industry in Guyana, it is necessary to conceptualise the integrated nature of this industry by its planning and effective net-work operation. The sugar industry may be defined as an industrial complex which comprises the cultivation and

1 Formerly Chairman of Bookers Group of Companies.

2 Jack Campbell, "Britain, Sugar and the EEC," *Venture*, Feb. 1967, p.10.

3 See: George Beckford, *Persistent Poverty*, Oxford Univ. Press, 1972.
H.R. Brewster & C.Y. Thomas, *Dynamics of West Indian Economic Integration*, Mona, Jamaica, 1967.
A. McIntyre, *Aspects of Development and Trade in the Commonwealth Countries*, Economic Bulletin for Latin America, Vol.X, No.2, Oct.1965.

harvesting of sugar cane, followed by the manufacturing of sugar and its by-products such as molasses, and the distillation of raw spirit that are accompanied by bulk-handling, storing, shipping, and selling of raw sugar and molasses, and including the import and supply of materials and equipment for the entire industry. This definition includes the operation of subsidiaries in Guyana as well as those based in the United Kingdom.

The four companies which control the assets of the sugar industry in Guyana do not provide adequate data on each subsidiary for detailed analysis. Consequently, this lack of data presents a major constraint to account for inter-company transfers from published consolidated statements and reports.

Expatriate owners of the industry continue to present a gloomy picture of the industry, as if it were on the verge of bankruptcy. They submit that the sugar industry in Guyana is operating on marginal profits. Their statistics and arguments seem to overwhelm many commissions, committees and tribunals of inquiries[1] into the sugar industry, with the result that sugar workers are among the most exploited in Guyana.

Production

Although the actual quantity of sugar produced in 1972 is less than the record of 368,843 tons in 1971, the capacity for producing more sugar and growing more cane has been rapidly increasing. This trend has been noticeable for more than ten years. Technical innovations in field, factory and office have increased productivity in the industry to an extraordinarily high level. When this phenomenon is observed, it is expected that the industry is better able to shoulder labour costs. Furthermore, the level of profits is closely correlated with labour replacing techniques in production.

The sugar industry is presently geared to produce 500,000 tons of sugar by 1980. Towards this end, it is estimated that 20,000 acres of new land were brought into cultivation in between 1967 and 1972. Never in the history of this country has a land mass representing the quality of this new land ever been developed in such a short period of time. Much of the initial work for the new cultivation began many years ago, but intensified during the last three years.

The rehabilitation work in factories is a continuous process. The machine utilisation rate in factories is continuously increasing with the result of higher productivity of capital. It is the policy of the industry to achieve a target of 160 grinding hours per week from the present level of about 140 hours. The sophistication of the machinery for sugar production is today almost unbelievable, compared to a decade or two ago. While machines are replacing men, the increase in wages is insignificant relative to the increase in the value of the machines which they operate or manage. It is necessary to take cognisance of this fact as it is a truism that salaries in industry are relatively lower in labour intensive industries when compared to industries where the value of machinery is considerably higher.

International Sugar Agreements

The world free market price of sugar does not always reflect the actual cost of production. The main reason for this situation is that between 8m. and 9m. tons of sugar enter the free market. This

1 It now seems as a routine procedure that the trade unions, and sugar produers can only settle income and working conditions disputes thought the medium of special investigation. Recently P. Cummings (1965) and G. Persaud (1968) headed two commissions followed by Zaman Ali (1970), then Low-a-Chee (1971 & 1972), and presently Stanley Mbore (1973).

represents about 9 per cent of total production, but this production of the world free trade is considered as a residual market, because the major part of the sugar trade is carried out under various kinds of international sugar agreements. To stabilise the fluctuating price of sugar at a remunerative price the Commonwealth sugar producing countries of Australia, Antigua, Barbados, Guyana, Jamaica, St. Kitts, St. Lucia, Trinidad, and Mauritius signed the Commonwealth Sugar Agreement (CSA) with Britain in 1959, which will come to an end in December 1974 unless it is renewed. Addressing the West Indies Sugar Association, which is an organisation representing the interest of all Caribbean Commonwealth countries Sir Robert Kirkwood referred to the struggle to initiate the CSA:

> *"Let us not hide our light under a bushel. We had this idea. It was ours. We believe passionately in that fact that, as we had supplied cheap sugar to the United Kingdom and Canada during the war, then in peace ... the United Kingdom and Canada should at least measure up to its responsibilities and see to it that we had a stable, decent and fair price after the war. And those were the principles on which we acted and which in the end the United Kingdom accepted."*[1]

Under the Agreement, the U.K. bought, in 1965, a total of 1,692,500 tons of sugar at a negotiated price, of which Guyana's allocation was 181,810 tons. In recent years these quantities have increased, mainly due to a larger market in the U.K. and partly to re-allocation of the quota of South Africa which is no longer a member of the Commonwealth (see Table 1). In 1967, Britain's domestic consumption reached 2.85m. tons, of which British grown beet sugar made up 0.91m. tons, while 1.74m. tons were supplied by the CSA *Negotiated Price* and the balance of 0.2m. tons from Commonwealth and foreign sources.

Guyana also obtianed a market of 30,000 tons of sugar in the U.S.A. at a price slightly above the cost of production. It should be recalled that the U.S. export quota is fixed only after domestic production is determined and then there is pressure from Latin American countries for increased quotas. In 1971 the U.S.A. bought 107,573 tons of sugar from Guyana.

Markets

As in the immediate past, the present and future markets for sugar are lucrative for sugar producers. Sugar workers are aware of the existing market allocations and the problems of selling sugar to Britain which is now a member of the EEC. In negotiations for higher wages, sugar producers are frequently pessimistic over secured future markets. This outlook actually contradicts the policy of increasing production to 500,000 tons within the next decade. What seems to be at stake is not the incomes for less developed countries but the subsidy of cheap sugar to consumers in developed countries and the profitability of the sugar companies.

According to the present and future demand for sugar, it is timely to support a target of 500,000 tons of sugar in 1980. The potential annual increase of world consumption of sugar is estimated to be 3 per cent. Considering the fact that present consumption is about 77m. tons, by 1980 this figure should be 100m. tons. Current world production is only about 73m. tons. Without major expansion of production it is most likely that there would be a shortage of sugar in the world market. The phenomenal escalation of sugar prices in almost every market indicates the state of supply of this commodity.

The average price in 1972 for Negotiated Price Quotas (NPQ) was about $292 per ton which was

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1 Sir Robert Kirkwood's address, West Indies Sugar Association's quarter-centenary, *Chronicle of the West India Committee,* January 1969, p.11.

Table 1. Analysis of Sugar Sales in the Sugar Industry in Guyana: 1967-71

	1967			*1968*			*1969*			*1970*			*1971*		
	Tons	*Av. Price*	*Value ($'000)*	*Tons*	*Av. Price*	*Value ($'000)*	*Tons*	*Av. Price*	*Value ($'000)*	*Tons*	*Av. Price*	*Value ($'000)*	*Tons*	*Av. Price*	*Value ($'000)*
N.P.Q.	187,464	215.36	40,372	188,562	216.74	40,869	194,973	218.29	45,560	185,265	214.67	39,772	207,468	211.34	43,846
U.S.A.	68,093	214.77	16,463	60,636	277.72	16,840	94,497	291.16	27,514	98,692	298.11	29,421	107,573	309.27	33,270
Frees	63,344	79.70	5,048	43,793	90.76	3,975	46,737	143.41	6,703	3,068	206.72	634	24,769	236.31	5,853
Local	25,021	135.02	3,378	23,857	129.02	3,078	28,258	136.24	3,850	24,124	139.41	3,363	29,033	142.20	4,129
Sub-total	-	-	-	*316,848*	*204.39*	*64,762*	*364,465*	*221.22*	*80,629*	*311,149*	*235.23*	*73,190*	*368,843*	*236.14*	*87,058*
Canadian rebate	-	-	-	-	-	476	-	-	587	-	-	406	-	-	296
Total	*343,922*	*189.76*	*65,262*	*316,848*	*205.90*	*65,238*	*364,465*	*222.83*	*81,214*	*311,149*	*236.53*	*73,596*	*236,843*	*236.94*	*87,394*

Note: Some of the totals are based on average prices and approximations.

Source: Guyana Sugar Producers Association Ltd., *Moore Advisory Committee,* Appendices to Memorandum, Georgetown, 1973.

higher than $210 per ton in the previous year. Even the U.S.A. price of $305 a ton in 1971 was greater than the bonanza year of $232 per ton. But most astonishing is the FREES Price of $210 per ton in 1971. The world price in 1972 averaged about $350 per ton, fluctuating to as much as $432 a ton in March of that year (see Table 2). The price of sugar in European Economic Community is L82 against L61 per ton in the U.K.

Table 2. Sugar Prices

Sugar Markets	*1970*	*1971*	*1972*	*1973*	*% Change 1970-73*
	(Dollars per ton)				
United Kingdom	215	211	304	305	42
United States of America	298	309	331	339	14
World Market	207	236	-	350	69

The destiny of the Guyanese sugar industry does not lie in the maintenance of ties with imperialist countries. Guyanese and West Indian sugar producers should decolonise their policy of shopping around with an empty bread basket. For many years the sugar producers and governments have negated entry into non-traditional markets. We submit that presently and in the future every ton of sugar can be sold at lucrative prices in other markets.[1] Table 1 shows that Britain which buys 56 per cent of Guyana sugar, in 1971 paid the lowest price. Furthermore, British consumers pay a relatively low price for sugar compared to EEC countries.

It is public knowledge that the Government of Guyana has secured an initial 30,000 tons of sugar per annum in the China market. There is evidence that China would pay $400 per ton. With the new market alone, the sugar industry would have received an estimated $3m. extra revenue which would have been adequate to increase substantially the income of all sugar workers. Such sums, when not obtained, represent a loss to the Guyanese economy.

Capital Employed

In 1956 the issued share capital was $17.5m. which increased to $32.7m. in 1966 then to $40.9m. in 1971. This increase occurred not as an input of new capital, but by the issue of bonus shares to shareholders at no price. This device of capitalization of reserves has three objectives. Firstly, to reduce dividends to nominal rates; secondly, to influence share prices in order to prevent take-over bids; and thirdly, to capitalize reserves for further investments while showing a nominal value of issued capital.

The companies use an accounting technique of converting gross profits into bonus shares at no price to the shareholders and then pay a dividend on all the shares. The result is that a declared 5 per cent on capital employed can be cashed in for $2.10, for a share worth one dollar only a year previously. This book entry technique has the ultimate effect of lower yields in net profits and enables the sugar companies to bargain for small increases in wages.

Derived from revenues, the sugar industry in Guyana increased its capital and revenue reserves from $50.7m. in 1966 by $55.4m. in 1971 to the extraordinarily large total of $106.1m. This movement implies that between 1967-1971 total share capital and reserves increased by 77 per cent to a total of $147m.[2] Consequently, with only issued share capital of $17.5m. in 1956, the sugar industry after 16

1 Fred Sukdeo, *Trading Strategies and Economic Development in Guyana,* University of Guyana, Georgetown, 1973.

2 Guyana Sugar Producers Association Ltd., *Moore Advisory Committee* Appendices to Memorandum, Georgetown, 1973.

years of growth accumulated net assets which represent 8.4 times the initial growth of the share capital of 1956.

The sugar industry increased its share capital between 1967-1971 by $48,824,400, which represents a reduction of minority interests by $583,072. During this period the industry reduced its reserves by the identical sum by which it increased its share capital. The composition of the reduction of reserves was as follows: amounts capitalised in paying up shares, $7,524,400 and reserves capitalised by bonus issues $1,300,000.

According to the statement on increases in capital and revenue reserves, it is the policy of the industry to pay in cash almost all of the profits to shareholders and to increase their reserves primarily from the rehabilitation fund. For example, profits in 1970 and 1971 totalled $6,515m. while cash dividends represented $6,474m. The bulk of the net increase in reserve of $4.716m. was derived from the rehabilitation fund of $4,698m. during this period.

The consolidated balance sheets of the companies show that the sugar companies use revenue from the sugar industry to invest and service subsidiaries. The investments in *other assets* increased from $6m. in 1967 to $11m. in 1971 while balances with fellow subsidiaries increased from $5m. in 1967 to $12m. in 1970.

During the years of high production and increased prices, in order to show a low level of profitability, the sugar companies intentionally increase their current assets. They single out items such as stocks and stores or increase certain types of investments. While in 1967 current assets totalled $16.6m. in 1971 the figure increased to $20m. During this period stocks and stores increased from $5.2m. to $7.3m.

The accounts of the company do not indicate the annual net additions to fixed assets. Using the given items in their published accounts, it is possible to derive this figure. The method used is to add depreciation charges to net fixed assets at the end of the financial year, which gives a total which when subtracted from the net fixed assets at the beginning of the year provides the net additions during the year. The figures for 1968 in Table 3 show that in that year the sugar companies in Guyana accumulated $33.5m. as net fixed assets.

Table 3. Net Additions to Fixed Assets in 1966

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Net Fixed Asset at 1/1/68	57,433,381
Net Additions to Fixed Assets in 1968	33,494,612
TOTAL	*90,927,993*
Depreciation	4,715,486
Net Fixed Assets at 31/12/68	86,212,507

Source: As Table 1.

For the period 1967-71 net additions to fixed assets totalled $66.1m. while depreciation accounted for only $25.6m. Consequently the net increase of $41m. represents accretions to the industry without any new capital being brought into the industry.

Revenue and Depreciation

The sugar companies have used self-generated funds to finance the industry. The companies use both the depreciation and rehabilitation funds as cost of production. The rehabilitation fund, which amounts to $7.20 per ton of export sugar, is channelled to reserve funds and replacement reserves which is expended as income to shareholders. This fund was intended to modernise the sugar industry and to be operated as interest free loans to the companies. Any withdrawal from the fund should be treated as revenue[1] if the deductions are considered as cost to the companies.

The cost of production in the sugar industry has escalated from $58m. in 1967 by 4 per cent in 1971, although production increased by only 7 per cent. During this five-year period, depreciation charges increased by 40 per cent. Expressed in terms of a ton of sugar, depreciation cost was $12.50 in 1967 compared to $16.29 in 1971.[2] The industry is only able to show profits of about $10 per ton of sugar during this period, as a result of the increase in the proceeds of sales which moved from $190 a ton in 1967 to $237 a ton in 1971. The net profits of the industry in 1971 was $4.108m. which represents 6 per cent on capital employed. However, the original shareholders normally earn as much as 20 per cent on their investment in the industry.[3]

The method of straight line depreciation as against reducing balance is a device of reducing profits in the industry. Furthermore, the industry does not apportion or depreciate all expenditures over a number of years which yield revenue for a number of years. For example, expenditure on planting of canes should be spread over the many ratoons of the crop.

Breakdown of Cost of Production

The cost of production in the sugar industry can be examined under the sections of field, factory, administration, and Georgetown overheads. Although the Department of Inland Revenue grants an initial allowance for the development of new lands, sugar producers still charge this cost under current cost of production. In terms of total cost, the field sub head accounts for 49.3 per cent in 1971, followed by factory 19.9 per cent, administration 9.6 per cent and Georgetown overheads 6.5 per cent. Factory costs have declined from 20.7 per cent in 1967 to 19.9 per cent in 1971 while administrative costs have increased.

According to the industry cost summaries for 1967 to 1969, it is noticeable that per ton cost of sugar in 1967 was $186.72 compared to $227.90 in 1968 and $217.82 in 1969. In 1970 this figure increased to $233.89 and then fell in the next year to $231.01. Using 1967 as the base year, production costs increased by 6.1 per cent while actual production of sugar increased from 343,922 tons to 368,843 tons or 7.3 per cent.

It is observed that mechanical tillage costs actually declined from $4.85 per ton of sugar in 1967 to $4.59 in 1971. This trend is also noticeable for general field maintenance. However, there was nearly 100 per cent increase in field workshop costs for the year 1968. Generally, it is difficult to account for the 2.1 per cent increase in total field costs per ton of sugar.

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1 *The Low-a-Chee Arbitration Tribunal, 1970,* concluded that uplifts from the rehabilitation fund should be treated as revenue.

2 Guyana Sugar Producers Assoc., *op.cit.*, 1973.

3 C.Y. Thomas, "Sugar Economics in a Colonial Situation," *Ratoon,* No.1, Georgetown, p.18.

Another item of interest is the Georgetown Overheads cost. This cost the industry $5.3m. in 1969 which represents an extraordinary increase of 37.8 per cent from 1968. Storage, shipping and transport costs have increased steeply. In 1971 the increase over the previous year was 26.5 per cent.

The profitability of the sugar industry and the credibility of the accounts can be assessed when one takes into consideration that in 1971, the industry produced 4,378 more tons of sugar as compared to 1968. Nevertheless, the revenue yielded was $6.2m.

Another factor which affects the profit level is that during periods of low revenue, only essential works are maintained while when revenues are high there is excessive expenditure which depresses the level of profits.

Further incomes to the sugar companies are in the form of profits from the sale of molasses, the operation of Demerara Sugar Terminals, coastal and ocean shipping, devaluation, (Guyana now receives not $4.80 but $5.21 for every pound sterling) producing raw spirits, the rate of commission to sell sugar by London based agents, the inter-company transactions in pricing of goods and services bought and sold in Guyana as well as in foreign countries by the parent company. Due to the scarcity of data on these issues it is virtually impossible to ascertain the exact magnitude of the level of exploitation of sugar workers with this network of integrated subsidiaries.

The low profitability of the sugar industry as claimed by the Sugar Producers is in reality deceptive accountancy manipulation. The companies have the ability to use their power as they wish since they are not incorporated locally and they can still operate under an outdated company law system in Guyana. While this situation exists, sugar workers remain the target of acute exploitation. Their frustrations over wage negotiations cannot any longer be contained in a vacuum. It is now appropriate for Guyanese to own and control the sugar industry in the interest of national development.