THE INTERNATIONAL SUGAR AGREEMENT: PERFORMANCE AND PROSPECTS

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The decisions which the International Sugar Council will take in London in the next few days will have a profound effect on the character and future course of the International Sugar Agreement. The Council will decide whether to extend the life of the current Agreement for a year or two, or to negotiate next year a new five-year Agreement. Basically the question is whether a somewhat anemic, possibly permanently crippled bird-in-the-hand is preferable to a potentially chirping and singing bird-in-the-bush which could very well prove untrappable.

Before discussing the problems and prospects of the current Agreement, two background observations might be useful. It seems to me, first, that the general orientation towards international commodity agreements has changed during the last few years in most western countries, and even in some low-income developing countries. Fashions may be as fickle in the realm of ideas as in more mundane matters. From about 1950 to 1975 anyone who dared to question the universal applicability, usefulness and benefits of international commodity agreements was not only reactionary, fascist, capitalist, imperialist running dog, but a contemptible ignoramus who has missed the thousands of pages of UNCTAD polemics, doctrine and dogma. That commodity agreements were useful, even indispensible, almost became during the first decade of the new era of UNCTAD the touchstone of moral rectitude and goodwill towards the low-income countries which depend on exports of agricultural and other bulk commodities. The much debated question was whether the agreements should be used merely to prevent excessive price fluctuations around the trend or should be a vehicle for transmitting wealth from the rich industrialized countries, meaning primarily the U.S., to the low-income tropical countries in Latin America and Africa. Not all U.S. delegations to international conferences were prepared to go along with this high fashion and they often suffered the fate of finding few friends and even fewer allies.

During the last few years subtle changes towards a more pragmatic approach began to be perceptible in the citadels of the ICAs such as Paris and Brussels, and perhaps even Rome though hardly yet in Geneva. Careful observers began to suspect that the inability to negotiate more than a handful of ICAs and the frequent failures of those which had been negotiated may hide something of fundamental importance which would be folly to overlook. Especially vigorous has been the skepticism with regard to the Common Commodity Fund that was to be the crowning glory of the ICA edifice. The record shows how difficult it is to prevent the price of a commodity to push its way through artificial, politically agreed boundaries, even when those are set in relation to the practical market price and do not attempt to be vehicles for development aid. It is now perceived even in many developing countries, particularly those of more advanced economic structures and with middle levels of income, that what is needed is objective analysis of the record of

ICAs and to apply the experience in future international commodity discussions. If sheep-like repetition of dogmatic faith in ISA will no longer do, it would be almost as mischievous to dismiss the possibility of real problems or that international society can mitigate them. There are highly useful lessons to be learned from the rich body of post-war commodity experience.

The second point is that a better case can be made for an international agreement on sugar than for many other commodities. The economic structure of sugar differs in important ways from that of other agricultural commodities important in international trade. There is the almost universal practice of protection and subsidization - a problem that was recognized almost a century ago and led to the 1902 Brussels Convention; there is the fact that the so-called world free market is a residual market, to mention only two factors. At the time of the 1953 Agreement world production was around 41 million tons, exports to relatively stable special or preferential markets amounted to 7 million tons and to the free market only 5.5 million. As a result changes in exportable supplies relative to world production had disproportionate price effects on the free market - comparable to the difference in effect between an explosion in a tightly confined space and in the open air. But note that the world free market has been changing: it is no longer as small a proportion of world production and trade as it was 15-20 years ago. The largest and most important single change took place in 1974 when the U.S. did not extend the legislation which made it part of the special preferential market. In 1978-80 world production was 87.6 million tons; exports to preferential markets 5.3 million, and to the free market 18.4 million tons (Chart 1). But I doubt whether the trend will continue as vigorously in the future.

How have past sugar agreements performed their primary function of preventing excessive price fluctuations by keeping the world market price within the range (maximum and minimum) set out in the Agreement? Chart 2 shows how difficult it is to have good performance even when the need for the agreement is generally acknowledged and implementation relatively high: i.e., even when there is no blackmarketing and calculated cheating on a substantial scale, as there has been in some agreements. During the first Agreement of 1954-58, prices stayed at the bottom of the range during the first two years, shot through the top in the fourth year, and were in the lower quarter during two years. Less successful was the second Agreement, 1959-63. The annual average of the world price was below the floor in four years - and 100% above the ceiling in the fifth year. Nor was the record of the third Agreement (1969-73) much better: the price was below the floor in the first year, in the Agreement range during the next two years, and 70% above the ceiling (average) during the last period.

Nevertheless I think that without the Agreements the market's performance at the lows would have been worse for exporters. During the first years of the first Agreement, at least, the chances are that the price would have gone lower, if only because the free market was then truly a residual dumping market. But I think that the subsequent Agreements also helped, at least to some degree, during most of the low price periods.

Has the current Agreement been more successful? It has a number of desirable novel features, largely due to U.S. insistence, which have given it above average potentialities for success. Indeed, I would go so far as to say that these features give the Agreement a character of its own, both from the standpoint of world economic development and justice. I refer in particular to the novel provisions for adjusting export quotas in light of performance so that efficient producers and the countries which find sugar production economically advantageous have the chance to expand production. These provisions counteract to a substantial degree the fundamental fault of export quota schemes, which is that they tend to freeze the status quo.

Another important new feature is the provisions which require exporters to establish a large special reserve stock to be available for release when the price rises to the top third of the range. In theory protection of the floor should be very much easier than of the price ceiling; and the 1977 Agreement was the first serious effort to give protection to importers. To help exporters to carry the much larger stock requirements than of any previous commodity agreement - 2.5 million tons, to be precise, which - and this is the important figure - comes to about 17% of export quotas - the U.S. delegation took the lead in developing a scheme for a fund to defray the costs of carrying the stock. How much of the costs would in fact be borne by importers was scrupulously left to the ad hoc decision of the market; but even so, as the leader of the U.S. delegation, the redoubtable Mr. Katz has said, this marked "a significant change in" U.S. policy - and, let me add, in the policy of other importers, some of whom were far from happy with Washington's fancy ideas. But the U.S. delegation was less active with regard to the allocation of basic export quotas - unfortunately so. I was not a member of the U.S. delegation, but I constantly bewailed this attitude in conversations with my USDA friends. After all, as an ex-USDA employee I'm entitled at least to criticize to members of the glorious fraternity.

We are approaching the end of the Agreement's fourth year, and one must admit that performance has hardly lived up to promise. During the first two years the ISA daily price was on the average 20% below the bottom of the agreed range of 11-21 cents. Then, during the last part of 1979 supply prospects changed and the price rose. The Council moved into high action and proclaimed stock releases which theoretically should have halted the advance in its tracks. Unfortunately the market was not convinced that over 2 million tons of uncommitted special stocks were in place, possibly as exporting countries did not seem to be in a special hurry to sell. The price retreat was short-lived. The ISA price rose to over 40 cents a pound and the 1980 average was 28.7 cents. Protection of the price range was not made easier by the Council's decisions to raise the range by two cents to 13-23 cents. Before the year ended the price was again on a descending path, mainly because of a more realistic perception of the production prospects around the corner. By June 1981 the price was below 15 cents; it fluctuated during the next three months; the Executive Committee met frequently to manipulate "global quota" and quota figures; but in September the price went down to about 11 cents, 15% below the new minimum. The world price rose above the minimum during the last part of September - however in no way because of ISC action.

That things would not be easy was known even before the negotiating conference ended. I remember well a walk from the UN Palais with Bob McConnell and Tom Little of the U.S. delegation who asked me whether I thought the quotas could work. After due statesman-like hemming and hawing I ventured the sage opinion that they could succeed, given a bit of luck. Alas, we have not had luck with production developments and the quotas have not succeeded in preventing the price from falling below the minimum. Nor have the much touted stock provisions prevented it from going through the ceiling.

Of course it is possible that the price fluctuations would have been even greater if the Agreement had not been in place. In a speech at the International Sweetener Colloquium held last February in Phoenix, Mr. Katz said:

> "While I cannot prove the proposition, I suspect that in the absence of the ISA the price of sugar would have fallen well below seven cents per pound in 1977-78 and the subsequent rise in prices would have peaked at much higher levels. Viewed in this light I would conclude that the International Sugar Agreement of 1977 did not perform all that badly."

But many market people in London and other important international trade centers do not share this view. They point out that in 1977 prices were pushed down by policies of exporting countries to get rid of stocks before quotas came into effect, which some at least would otherwise have been less ready to dump on a sick market. Once the Agreement came into effect retaining quota entitlements became the paramount consideration which could be achieved only by making full use of the quotas. It is possible that the hope which the Agreement engendered among producers may have forestalled moves to cut production. Also, it is said, the Council was hesitant and slow with quota increases when the first signs of a possible shortage appeared in the market. As to the top of the range, these critics argue that as the reported mountain of 2 million tons of stocks did not avalanche on the market impetus was given to speculative fever which might not have started if, in the absence of an Agreement, stocks had not been held back.

To play around with "what might have been" may be interesting and sometimes instructive; what concerns us is the fact that the price stayed within the Agreement range for only an insignificant fraction of the last four years. Why? I have time only for a summary enumeration of the obvious. (1) The aggregates of export quotas was too high, mainly because of the voracious appetite of the three biggest exporters. Some of the little ones were just as hungry but they lacked the power to take what they wanted. (2) Failure to persuade the EEC to join, aggravated by superb harvests each year. (3) The limitations on quota reductions to a maximum of 15% of BETs (17% under special circumstances). (4) A rule which makes ineffective quota limitations when re-instituted (in response to a fall in price) after the first few months of the year. (5) The principle for adjusting BETs in the last two years in the light of performance has resulted, ironically, in an unprecedented inflation of quotas. This had done as much as anything to make the system unworkable this year - and if unchanged, will make better performance in the future highly problematic. (6) The stock provisions were not as watertight as the kindly, honorable and trusting people who drafted the rules thought they would be. Some countries had every ton which they declared: but the effective special availabilities for the free market was far less than the theoretical 2 million-and-some tons.

What, then, of the future? The immediate question which delegations will have to answer in London is whether this good but imperfect Agreement is good enough to continue with for another two years, especially if the costs, dangers and pitfalls of new negotiation is borne in mind. The question is particularly difficult for the U.S., as policy on ICAs is under examination. I think that with "average" world weather conditions and U.S. production unchanged, world supply/demand prospects are likely to be less turbulent in 1983 and 1984 than during the last two years. Under these conditions, I think the chances are good that the annual average of the world price will be in the Agreement range, which would enable the Agreement to claim success. However if weather conditions in the major producing areas are abnormal, the Agreement would be hard pressed to hold the line unless two or three provisions are modified, or the EEC is persuaded to join. Whether a way will be found to make these modifications - more than cosmetic but less than structural - I do not know. Parenthetically, a severe decline in U.S. production if there is no price support legislation would also have significant effects.

Under any circumstances, it is to be hoped that the period of grace will be utilized by the Administration and the Congress to start an objective, careful review of the operation of post-war international sugar agreements and other commodity agreements, as well as of the inter-governmental commodity study groups in FAO and UNCTAD. What conclusions and lessons can be learned from these experiences which cover varied circumstances and problems over a quarter of a century or more? The U.S. should not be the eternal "No"-sayer; and its record of international aid entitles it to a better role than as a perpetual Scrouge. If ICAs can be made to work to the long term benefit, in the words of the Havana Charter, "of both producers and consumers", there is no reason for not using this technique for attacking problems of commodities which are of great economic importance to exporting countries. Fifteen years ago the world - and particularly the developing world - would not have listened to objective analysis of cold facts; ICAs were a panacea buttressed by holy faith. Most low income countries which export primary commodities regard commodity agreements as a useful safety net; certainly the sugar exporters do, including such high income countries as Australia and South Africa; and perhaps they can be, on a case to case basis. The verdict will not be in until we get objective performance studies, not polemics.

Chart I.--World Sugar Production, Net Exports, and Free Market Exports, Average 1955-57, 1968-70, and 1978-80

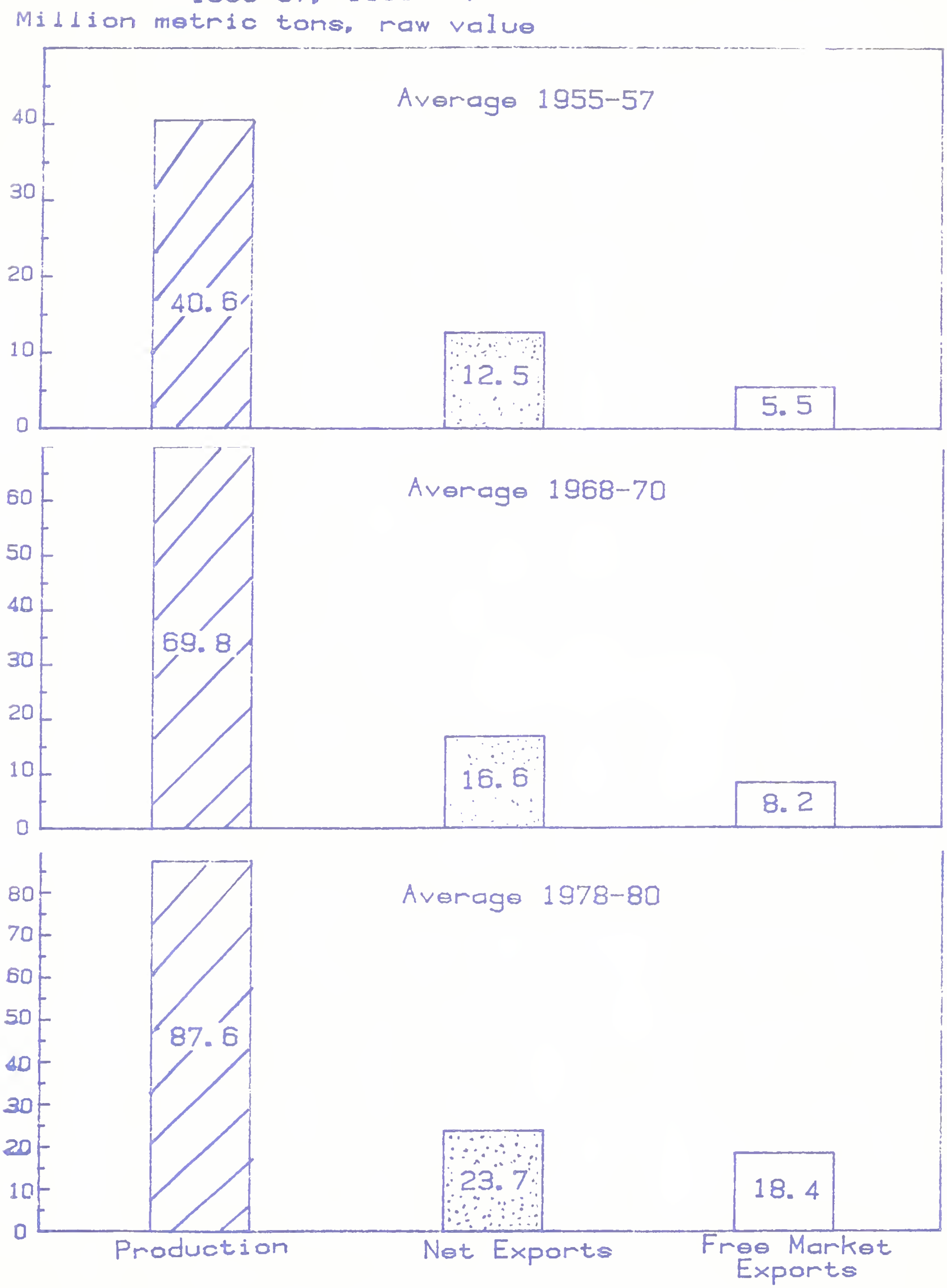


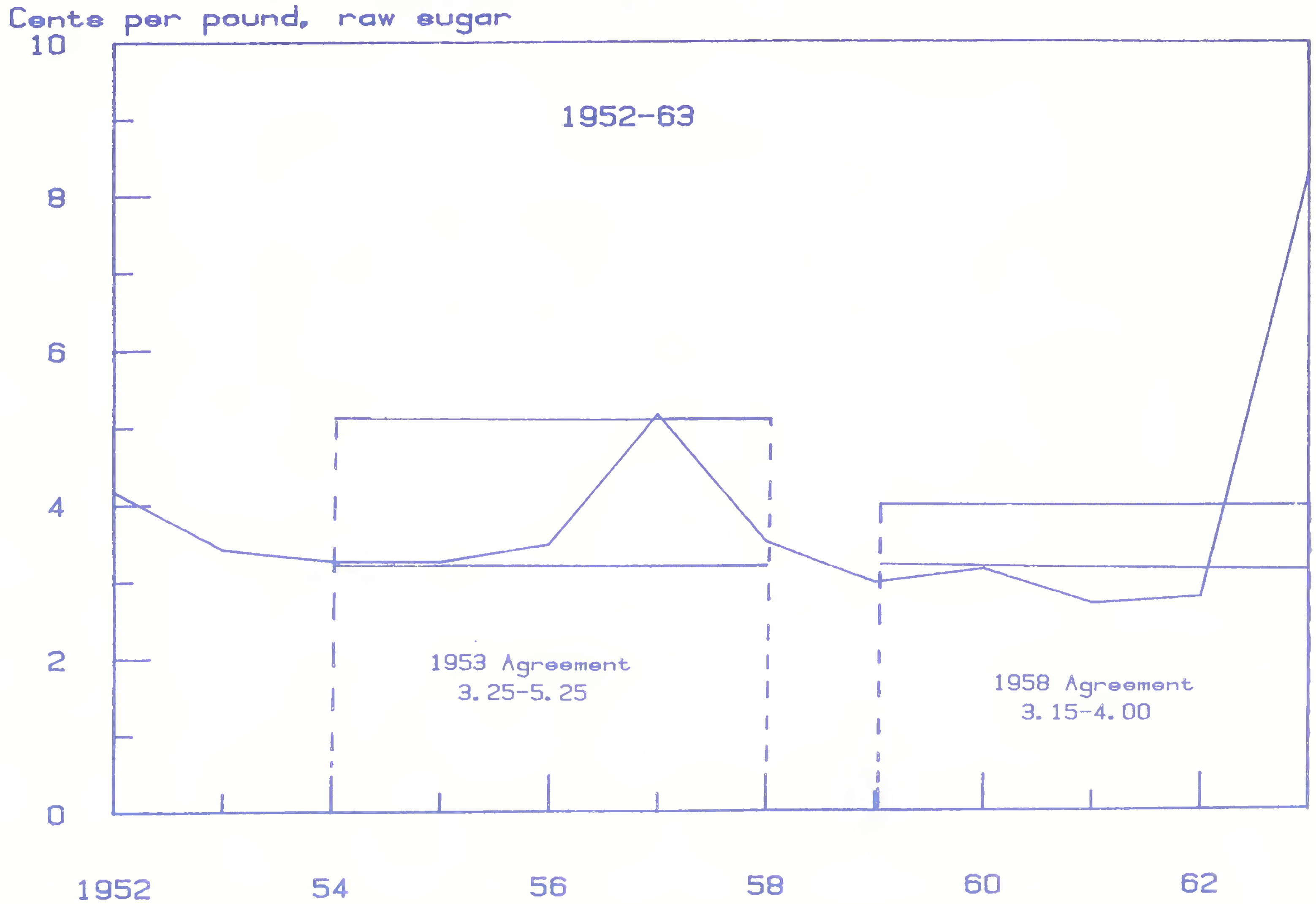
Table 1.--World Price for Raw Sugar and International Sugar Agreement Price Ranges, 1952-81

	Calendar year	Cents per pound		Calendar year	Cents per pound
	1952	4.47		1964	5.72
	53	3.14		65	2.03
	54	3.26		66	1.76
1953 Agreement	55	3.24		67	1.87
Price Range for 1954-58:	56	3.47		68	1.90
3.15-4.35	57	5.16		69	3.20
	58	3.50	1968 Agreement	70	3.68
	59	2.97	Price Range for 1969-73:	71	4.50
1958 Agreement	60	3.14	3.25-5.25	72	7.27
Price Range for 1959-63:	61	2.70	Supply commitment at 6.50	73	9.45
3.15-4.00	62	2.78		74	29.66
	63	8.29		75	20.37
				76	11.51
				77	8.10
				78	7.81
			1977 Agreement	79	9.65
			Price Range for 1978-82	80	28.69
			Initial 11.00-21.00	81	20.5 1/
			Since Nov. '80 13.00-25.00		

Note: Prices for 1952-60 are New York world contract No. 4, f.a.s. Cuba; and for 1961-81, International Sugar Council daily price, f.o.b. and stowed Caribbean ports.

1/ First 6 months.

Chart II. --World Price for Raw Sugar and International Sugar Agreement Price Ranges, 1952-81



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