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Sugar Liberalisation: Are there Winners and Losers?

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Thank you Chairman. It is a great pleasure to participate in this seminar today and reflect on the opportunities and challenges that lie ahead for sugar in the WTO agricultural negotiations.

The theme of this year's seminar "HOT ISSUES FOR SUGAR" is very timely. It seems there are many issues indeed before our industry. Trade liberalisation is one on which much has been said and much more will be said before of the present WTO negotiations on agriculture conclude. Unfortunately, despite all the talk, to-date there has been little action. In an effort to turn this around, I am pleased to note that many of the world's sugar producers and exporters have joined forces under the banner of the *Global Alliance for Sugar Trade Reform and Liberalisation*. In Banff last month they issued a "Call for Action" to Cairns Group Ministers and to WTO Ministers more generally. The simple message is that the WTO negotiations on agriculture must include positive, progressive and meaningful reforms of the world's sugar policies.

As you all know Australia has for many years been an advocate for free trade in agricultural products and for sugar. Now, through the Global Alliance, we have been joined in this advocacy by many of the world's leading sugar producers. In this context I am very pleased to accept the opportunity to talk to you about "*Sugar Liberalisation: are there Winners and Losers?*"

My topic today is a very interesting one. As cast, it carries an implied assumption that there is some stability in the world sugar market, some certainty in present policy settings and that change is bad. But is this the case? It is not possible to understand the implications of sugar liberalisation without first understanding the current environment.

World sugar environment

The world sugar market is not now nor has it ever been characterised by stability. Quite the reverse is the case. Change is the one enduring feature of our market for prices, physical activity and government policy.

World prices

One way of looking at the market is to examine prices.

- The 1970s were characterised by two very large price spikes. There are few who make positive statements about the benefits of the International Sugar Agreements
- The 1980s saw some periods when prices were very high and others when prices were quite low
- The 1990s saw a long period of strong prices before the collapse of 1998.

Clearly government policies have done little for world sugar price stability.

Trade patterns

If government policies have not helped with price stability, then surely they must have contributed to certainty in the physical market.

In 1960, the United States and the United Kingdom were the world's largest sugar importers. Both countries relied on imports for a major part of their domestic requirements. They imported sugar from countries with which they had close links. The US imported sugar from Caribbean countries and the Philippines. As strange as it may seem now, Cuba was the largest supplier of sugar to the US. The United Kingdom sourced its imports from countries in British Commonwealth.

In 1970, the world trade pattern was quite different. Isolated from the US, Cuba began shipping its sugar to the then Soviet Union. Similar patterns albeit on a smaller scale, were developed with other centrally planned economies in Eastern Europe. A trading arrangement was established between Cuba and Eastern Bloc economies at preferential prices. At the time, the Soviet Union became a major exporter of white sugar because its imports together with domestic production exceeded consumption by as much as 1.5 million tonnes.

During the 1970s domestic Soviet production began to decline. At the same time fuelled by the impact of a new sugar regime, production in Western Europe grew strongly. The first EU exports began to emerge. By 1980, the full effect of the trade flow changes caused by EU policy had become apparent. Western Europe had switched from being a major importer to the world's largest exporter of white sugar. North Africa and the Middle East were the main destinations for this sugar. The only imports to the EU were from ACP origin.

By now trade in the Far East began to flourish. By 1990, the region's sugar market had become the world's most dynamic. The growth in sugar was led by the dynamism of the Asian economies. More recently we have seen the emergence of Brazil as a major sugar exporter. There has also been significant investment in new refining activities in the Middle East. The sheer quantity of sugar produced by Brazil meant that Asia was an important outlet for this sugar. The new Middle East refineries meant that the EU also began looking further afield for its exports. Containers of EU white sugar began appearing in Asia.

This potted history of changes in trade flows is intended to be illustrative rather than comprehensive. It shows how the market has changed dramatically in recent years. It also begs the question, where is the period of certainty in the physical market?

Sugar policies

The irony of the sugar world is that policies introduced in the major economies over the past four decades to bring stability have done the reverse. The policies themselves change from time to time. The future of the EU sugar regime has been the source of significant debate in recent times. There appears to be two distinct camps within the Council – one pro-reform the other anti-reform. For the time being, the anti-reformers appear to be holding sway. An even more intense debate has been occurring in the US. NAFTA and increasing domestic production levels have caused change in the US sugar policy settings. Further change is likely. Elsewhere, Russia and Egypt have changed their import tariff structures. Russia has introduced a tariff rate quota system to better manage the flow of imports. Egypt has dramatically lowered its import duties to encourage the flow of sugar. In short the sugar policies themselves are rarely stable.

Even when the policies appear to be working, they provide incentives for convoluted and trade-distorting schemes designed to get past high tariff barriers. Blends with other products going into Japan and a dedicated plant for producing “stuffed molasses” for delivery to the US are just two examples of this behaviour. Overall, this adds to market uncertainty.

Alternative sweeteners

A side effect of the sugar policies has been a rapid acceleration in the pace of change in the world sweetener business. This has fundamentally altered the market structure. Over the past thirty years, high domestic prices in Europe, the US and Japan have encouraged a dramatic increase in the range of sweetener products available.

Alternative sweeteners have dramatically changed the face of the sweetener industry. Interestingly, the companies that have been most heavily involved in the development of calorific alternative sweeteners also have substantial interests in sugar production.

The range of substitute products for sugar has increased the choices available to sweetener users and the products themselves are becoming more sophisticated. Dr James Fry, LMC International, is on record as saying when it comes to blending, “one plus one equals three or more”. According to Dr Fry, when sweeteners are blended the total quantity required falls and the quality of the sweetener improves. The characteristics of the various products are important when users choose between them. As they become more substitutable, the relative price at which they are marketed will become an increasingly important decision criterion.

The rapid development of the HFCS industry in the US in the 1980s is one example of what is possible and of the speed at which sugar can be displaced.

Looking to the future, further change is likely. It is clear that the winners will be those who respond to evolving market circumstances. The losers will be those who do not. Insulating producers from the market dynamics will not slow the pace of change. Policies designed to support producer prices will actually accelerate the speed at which change occurs. Users seeking lower cost alternatives will see to that. When policy change is required, the adjustments will be more difficult for producers.

Sugar trade liberalisation

In Geneva, the WTO Committee on Agriculture has been meeting to discuss the way in which it will take agricultural trade issues forward in the WTO negotiations. These negotiations, the first under the Agreement on Agriculture, are a landmark. They will be important for the future of trade in agricultural products and for sugar. Perhaps even more importantly, for the WTO to be successful, this round of agricultural negotiations will need to produce an outcome for developing countries. In this regard much has been promised but is yet to be realised.

As I mentioned at the outset, many sugar producers met in Banff, Canada last month under the banner of the *Global Alliance for Sugar Trade Reform and Liberalisation* to discuss the importance of improving world trade for sugar and with it the economic well being of our industries. They are keen to ensure that sugar is seen as one of the central elements of the

WTO negotiations on agriculture. I am pleased to take this opportunity to talk to you about the Global Alliance's hopes and aspirations for sugar in the negotiations.

The *Global Alliance for Sugar Trade Reform and Liberalisation* was formed in Seattle last November when thirteen countries signed a Communiqué calling for WTO agreement on agriculture that includes positive, progressive and meaningful reform of sugar trade policies.

The Global Alliance is a diverse group of sugar producing nations. It is comprised primarily of developing countries. Eleven members fall into this category. Only two Australia and Canada, are developed economies. We have both importers and exporters in our ranks. Brazil and India are amongst the largest sugar producers and consumers in the world. We also have several smaller producers from Central America in our members.

In Canada the Global Alliance was delighted to formally welcome South Africa into its membership. This means the Alliance now represents more than 50 per cent of world sugar production and more than 85 per cent of world raw sugar exports. The Global Alliance is not a closed group. We extend an invitation to other sugar producers who are genuinely interested in securing sugar trade liberalisation to join us. Already we have received expressions of interest from other sugar producers to join our ranks.

The common interest of all Global Alliance members is their dependence on the world market for the growth and development of their sugar industries. They also recognise the fact that a more open and fairer world sugar market will deliver significant benefits. These will arise from the improved world prices that less competition from subsidised exports, lower domestic supports and increased market access will deliver. The united front the Global Alliance has in seeking the full inclusion of sugar in the WTO negotiations on agriculture adds real strength to its quest.

The Global Alliance supports the Cairns Group's central objective that trade in agriculture be placed under the same rules as trade in other goods. It also supports the comprehensive negotiating position tabled by the US with the WTO Committee on Agriculture on 23 June this year.

There is little doubt that the Cairns Group was successful in placing agriculture on the agenda in the Uruguay Round. But sugar was one of the many commodities for which the disciplines of the agreement on agriculture were modest. The main reason for this was the focus in the last negotiations on reaching an outcome acceptable to both the US and EU on temperate agricultural commodities. Their bilateral discussions produced the "Blair House Accord". The accord had the cereals sector as its focal point. Commodities such as sugar were captured collaterally in the agreement. Even then, the aggregation of commitments watered down their effect.

Given the dynamics that produced the Agreement on Agriculture, it is clear that the Cairns Group was a key player. It is equally clear that the outcome was produced without the full involvement of many industry sectors on a global basis. For this round of negotiations the *Global Alliance for Sugar Trade Reform and Liberalisation* is working to highlight industry

support for the imposition of negotiated disciplines on a commodity-by-commodity basis. Given the diversity of the Global Alliance, I expect that its message will be difficult to ignore. For the Global Alliance a measure of success for the present negotiations on agriculture will be the strength of the disciplines agreed for sugar.

The central elements of what the Global Alliance is seeking for sugar were reaffirmed last month. One of the principal reasons for its meeting in Banff was to deliver its core message for positive, progressive and meaningful liberalisation of sugar policies to Cairns Group Ministers simply and directly. The main points in the “Call for Action” are that:

- Export subsidies must be phased out
 - Export subsidies are amongst the most distorting of trade policy instruments. They both reduce world sugar prices and distort competition for access to markets for all exporting countries.
- Domestic support must not distort trade
 - For many commodities, policies were introduced to replace support systems that highly distort trade with payments to farmers that are less trade distorting. These changes have not been applied to sugar in a meaningful manner.
- Market access must be improved
 - To maximise effective market access opportunities for all countries to all markets, it is important that all non-tariff barriers be eliminated.

The Global Alliance recognises that agriculture plays a special role in many developing countries. Agriculture has far reaching implications for employment and the growth and development of their economies. It is important that the special status of agriculture in many developing countries be recognised in the WTO.

One of the best ways to promote the growth and development of agriculture in these countries is through opening not closing their access to markets. This begs the question, why do so many developed countries impose systematic trade and economic sanctions on the principal products of so many developing countries?

There is no point in having trade rules for agriculture that are much weaker than the rules for industrials and other products. The consequence is that agriculture is the most distorted section of world trade in goods. Within the agriculture sector, sugar is one of the most distorted of all commodities. There is NO reason why this should be the case.

Why do we need export subsidies for sugar? These policies are not tolerated in other sectors. Export subsidies were highlighted as the most trade distorting policy of all early in the GATT’s life. They were amongst the first trade policies to be outlawed and eliminated for manufactured products. The same should be true for agriculture and for sugar.

The world sugar market also suffers the effects of trade distorting domestic supports. The WTO Agreement on Agriculture began the process of reducing trade-distorting support levels. For many commodities, policies were introduced to replace support systems that

highly distorted trade with payments to farmers that are less trade distorting. These changes have not been applied in a meaningful manner to sugar support programs.

The Global Alliance proposes the elimination of all trade-distorting domestic support arrangements. This proposal would reduce the level of trade distortion provided by WTO member economies, increase the level of transparency in the provision of industry assistance and ensure all measures are targeted and minimally trade distorting.

Many countries impose very high tariff barriers on sugar. These effectively restrict market access. Tariff rate quotas (TRQ) are structured in a manner that effectively prohibits out-of-quota trade. These structures should be reviewed to facilitate improved market access.

The impact of the broad range of policies affecting sugar are relatively easy to identify. They support domestic sugar prices at levels that are well above world market values. This encourages sugar production in those countries. It also discourages sugar consumption and intensifies the level of competition from alternative sweeteners. The aggregate effect is to increase global production, lower global consumption and reduce world trade. Those that do not receive the various forms of government support are the big losers. The majority of these are from developing countries. These efficient farmers are forced to compete against subsidised exports; they face high tariffs and do not receive a full reward for their farming activities.

A consistent message from developing countries is that they want to see their economies grow through trade not aid. This is true for members of the *Global Alliance for Sugar Trade Reform and Liberalisation*. Developing countries simply cannot afford the handouts that some developed countries make.

The politics of world trade negotiations are such that to achieve substantial reform of sugar policies there needs to be commitment to reform from all parties, especially the developed countries. It is a simple fact that the levels of agricultural protection are as high now as they were in the mid-1980s at the outset of the Uruguay round. OECD estimates show that developed countries paid agricultural subsidies of USD274 billion in 1998. This represents an increase of 11 per cent over the USD247 billion subsidy payments they made during 1986-88, the base period of the Uruguay round. For sugar, the trend is the same. Unused subsidies have been rolled forward and other means have been found to support producers.

The potential benefits from sugar trade reform are significant. In a joint study, *Policies Affecting the Market Expansion of Sugar*, released in Seattle last year, the Australian Bureau of Agricultural and Resource Economics (ABARE) and the US research group Sparks Companies Inc found that the major effect of world sugar trade liberalisation would be to raise world sugar prices by more than 40 per cent. Reform of policies in just three countries, the US, EU and Japan would deliver the majority of this benefit. Increase US sugar imports and reduced EU sugar exports would be the major contributors to the higher price outcome.

ABARE and Sparks show that the losers from the present policies and support structures are those who use sugar in their production processes. Taxpayers in both the EU and US are being required to shoulder a larger share of the support payments.

Who are the winners? One could expect that all sugar producers in the major economies would reap substantial returns. The big winners in both the US and EU are the large sugar corporations. The General Accounting Office has found that the majority of the benefits are captured by just one percent of producers. A similar story is true in the EU. This is one of the reasons why policy change is difficult to achieve for sugar.

There are compelling reasons for further reform of agricultural policies and the full inclusion of disciplines on sugar in those changes. In too many countries, the production and marketing decisions of sugar producers respond to support programs rather than natural market conditions. The consequence is that the world's most efficient major exporters, the majority of whom are developing countries, suffer a lack of access to markets and face competition from subsidised sugar exports. The subsidies and market access restrictions distort global supply patterns and detract from security of supply. The Global Alliance proposals for the full inclusion of sugar in the negotiations will:

- expand world trade opportunities for efficient sugar producers;
- reduce the influence of parochial support policies;
- raise incomes and living standards in many developing economies;
- provide sugar users with access to supplies from a wider choice of origins at more competitive values.

Conclusion

The debate surrounding the present WTO agricultural negotiations promises to be very interesting. Through the efforts of the Global Alliance, I expect that for the first time there will be a sharp focus on sugar policies. I would encourage all participants in the debate to examine sugar policies both in the context of their influence on the broader sweetener market and in the context of other agricultural policies.

The concern with present sugar policies goes beyond their impact on world sugar prices. The policies are stifling the growth of sugar markets and imposing high costs on sugar users. As a consequence confectionery, food and beverage manufacturers are turning to alternative sweeteners to meet the needs. This is altering the nature of the sweetener market.

With sugar trade reform, the major users of sugar in developed economies would pay world prices not the present high domestic prices for sugar. This would stimulate their demand for sugar and increase sugar consumption and trade. The beneficiaries would be producers in developing countries who would receive an income boost through higher world prices and improved market access.