

SUMMING-UP OF THE CONFERENCE

Mr J.N. Greenfield, Director, Commodities and Trade Division, FAO.

It is my task to draw a few conclusions from two days of intensive discussions on sugar in the world and of course with particular reference to the Asia/Pacific region.

I would like to divide this summary into three parts - first our discussions on overall sugar market developments, secondly the country studies and thirdly something on the global policy environment.

First on the world sugar market, it was agreed that the industry has been undergoing a period of considerable change, a lot of deregulation has been going on, partly linked to development in global policy changes as reflected in the Uruguay Round. An important change that we discussed is the improved world market stability. We had a useful debate on the causes of this enhanced stability but the rising share of developing countries in world imports were clearly an important factor.

We also saw the rise of the Asia and the Pacific region in the world sugar economy and we had a preliminary debate on its future. Growth would continue to be high even the growth rate would probably fall from the "tigerish" rate.

In this connection, we had a useful round of comments of FAO's draft projections for some countries in the region. The FAO Secretariat is very grateful for the comments, which will be taken into account in their review.

We also noted that there have been some sharp changes in export performance with particularly fast growth by two of the relatively free market trading countries - Australia and Thailand. A related trend that was widely noted was the decline in marginal costs of production in real terms. Currently a floor level of costs for efficient producers could be estimated at about 10cts/lb.

Another important change regards nutritional views on the status of sugar. In the past there were widespread concerns at the healthiness of consuming sugar. In an important discussion of the latest scientific evidence on this topic the beneficial effects of sugar consumption were highlighted and the negative connotations were shown to be unfounded. It was demonstrated that moderate consumption of sugar in a well balanced diet was consistent with good health.

A common change in all the region was the marked growth of sugar consumed in the form of products (confectionery, bakery products, ice cream and particularly soft drinks which is also an area where other sweeteners were the most competitive in a number of countries).

The second part of our proceedings concerned a number of very interesting country studies. I am not going to summarise them but I will limit myself to some of the issues raised of a more general interest.

The first of the points that strikes me is the great role everywhere of the sharing formula. Each country studied had different formula and it seems that success here has been an important part of success in the growth of the sector.

The second point is that the industry has had to undergo continuous policy changes and policy reviews to reflect both domestic exigencies as well as to deal with shocks in the external market.

Every study laid great emphasis on the need to cut costs because of the recognition of increased competition on world markets and increasingly on domestic markets too. The impact of currency fluctuations on relative cost of products was stressed.

For most of the developing countries in the region, the link of sugar to food security was an issue. While sugar is a good source of food in its own right, it was often grown in competition for food grain (rice and maize). However sugar earnings were usually vital for the food security of the farmers, particularly the small farmers.

There was a lot of interest in the use of bagasse as a source of energy as well as other uses. More or less all countries reported on developments in this area.

The third part of our proceedings concerned developments in the overall world trading system and its implications for world sugar policy. I refer to such developments as the Uruguay Round, discussions on the Lomé Convention and discussions on the continuation of the reform process scheduled to begin in 1999 in the World Trade Organisation.

The meeting agreed on the advantages of a fair and rules based trading system and that the trend was for further liberalisation.

There was an important discussion of the problems that were occurring for many developing countries during the reform process.

There was the risk of marginalisation and further reform would need to take into account the factors as the stages of development, the needs of small island states and land locked countries; the problems of single commodity dependent countries; lack of alternative crops to the cultivation of sugar; freight costs; technological gap that has opened up; and the need, therefore, for special and differential treatment for developing countries, including the need for a considerable period for adjustment.

In particular there were lengthy discussions of the special importance to many ACP countries of the ACP-EU Sugar Protocol, which guaranteed prices for a fixed volume for an indefinite period. Representatives of these countries were concerned to note the pressures that sought to question the validity of this arrangement. In their view, the absence of special arrangements such as the sugar protocol would have serious consequences for ACP sugar supplying states, on employment, social conditions, export earnings and income. In this connection, the preamble to the WTO agreement was recalled where the objectives of reform were stated to raise living standards, to ensure full employment and to achieve sustainable development in a way consistent with different levels of economic development.

Regarding the preparations for 1999, the need for developing countries to be equal and well informed partners was emphasised. Governments would need to review their experience with the implementation of the Uruguay Round Agreement; they should assess the impact of the implementation of the reform programme on the markets for their commodities.

They should prepare special analyses of the issues that are likely to be covered in future negotiations such as a reduction in protectionism that could put world prices under upward pressure, the administration of tariff quotas; the environment; the possible erosion of preferential margins; and their experience as food importers. In preparing for 1999 developing countries needed to strengthen their administrative arrangements, including co-ordination mechanisms and their presence at Geneva as well as seek allies among other groups of countries to strengthen their bargaining position.

To conclude, Mr Chairman, I should like to thank you and John May together with your staff, the Sugar Industry, as well as the Government of Fiji, for the excellent support you have given to the successful conclusion of the meeting.

OPENING STATEMENT

Mr J.N. Greenfield, Director, Commodities and Trade Division, FAO.

Honourable Ministers, Distinguished Participants,

It is a great privilege for me today to address this Conference. On behalf of the Director-General of FAO, Dr. Jacques Diouf, I should like to extend our thanks to the Government and people of Fiji for this opportunity to take part in the discussion on the future of the world's sugar economy.

My task today is to discuss the international scene within which sugar policy takes place but before doing so I should like to note a few salient trends in the world sugar economy that will have a bearing on the policy discussion. Later there will be a host of specialist papers and speeches on sugar that will no doubt cast a different light on my interpretation of what is and what is not a significant trend. I look forward to following these debates.

To start with I would like to paraphrase another agenda item - sugar is big, challenging, and changing. Sugar is, of course, big, it is one of the major agricultural commodities traded: after the basic foodstuffs, it is the biggest, almost US\$ 12 billion in 1996. The value of world production would be almost three times that figure and sugar accounts for 9% of dietary calories world-wide. Around 10 developing countries can be said to depend for a significant share of their export earning on sugar while a total of 30 are net exporters. It is challenging in a way that appeals to economists - it is many dimensional. There are beet, cane, high fructose syrup and other sweeteners; there are farmers, processors, food manufacturers and consumers; and there is extensive government involvement. But perhaps most significantly the world sugar economy has been undergoing considerable change. On the side of consumption we have seen the growing share of sugar being used in prepared foods and food eaten out of the home. We see changes in preferences linked to dietary concerns, where many people in richer countries have curtailed their consumption of sugar. The world market has been changing: more and more developing countries become net importers, trade among developing countries has expanded, non preferential trade in sugar has been growing quite strongly in the nineties after a long period of stagnation and world prices have been much more stable in recent years than in the past.

The changes underway in sugar should be seen as part of a much wider process of change in the international trading environment. If we look back just ten years, world agricultural policy was then in complete disarray - the use of subsidies was rife, protection of temperate zone agriculture had grown enormously, record stocks of many of these commodities had accumulated, agricultural trade rows were commonplace and the feeling was widespread that nothing could be done. Initially the Uruguay Round of Multilateral Trade Negotiations did little to change people's views but, after the mid-term review, movement was seen even if it was only after 8 years that the Round was concluded. But already during these years many countries started on the road of reform unilaterally, many of them encouraged that they would get credit under the Uruguay Round for their efforts.

The Round led to important changes that are having real world effects. Take for example the opening up of the Japanese rice market and the management of tariff quotas - think of bananas. But the Uruguay Round also led to many more policy changes whose effect will also begin to be felt. Thus many of the exemptions from general GATT disciplines enjoyed by agriculture came to an end - most notably quantitative restrictions on trade like quotas - while new disciplines on

export subsidies have been introduced. Moreover, because the clue to many conflicts in the trading area lay in the domestic front, new internationally agreed disciplines have been developed for domestic policies. The Uruguay Round also made important strides in clarifying Article 20 of the GATT regarding exemptions and as a result we now have fresh interpretations of this Article in the form of the Agreement on Sanitary and Phytosanitary Measures. Agriculture also figured significantly in the new disciplines on intellectual property rights.

Sugar was clearly part of this process even if the extent of liberalization in this sector was relatively small. As has often enough been said, the effect of the Uruguay Round has been more in its qualitative impact than in its quantitative results. Yet in our view the new international agricultural policy framework does not constrain national production policy options for sugar a great deal especially for importing countries. If they so wish importing countries can continue to provide some support to their sugar sectors by a combination of tariffs and, if they have the funds, some limited direct support up to the de minimis ceiling, some input subsidies and Green Box support. For exporters the policy constraints are generally considered to be more binding as, in addition to rules on production policies, countries have, for the first time, to meet limits on the use of export subsidies.

This is, I believe, pretty much common ground today, but what of the future? To adopt an old saying to the present context "The Uruguay Round is dead, long live the Uruguay Round". By this I am sure you will guess I am referring to Article 20 of the Uruguay Round Agreement on Agriculture, which foresees further negotiations on agriculture to pursue the Uruguay Round agenda, discussions on which should begin in 1999. This is a very important date and I believe we really must get busy in preparing for it, and I address this particularly to the many developing countries that, I believe, were under-prepared for the Uruguay Round. Indeed the World Food Summit made a big point about the need for developing countries to become equal and well informed partners in the reform process, "working for effective solutions that improve their access to markets and are conducive to the achievement of sustainable food security". FAO has been specifically mandated to provide such help.

What then is required? To answer this we need to look at what Article 20 of the Uruguay Round says. Its preamble recognizes "that the long term objective of substantial, progressive reductions in support and protection is an ongoing process". This clearly sets the objective of further talks and is only to be modified by the other clauses of Article 20.

The first of these clauses says these negotiations will have to take into account experience from implementing the reduction commitments. This presumably means that each country would have to review its own experience, where it faced difficulties and where ambiguities in the Agreement were unearthed. This could include experience with safeguard mechanisms. This clause also refers to the experience each country has with how others implemented their commitments. Many developing countries would be concerned no doubt with how much market access was improved, the situation regarding tariff escalation and how tariff quotas have been administered.

The second clause of Article 20 concerns the need to take into account the effects of the reduction commitments on world trade in agriculture. This in a general way is rather difficult to assess and it is necessarily open to much interpretation. FAO

is ready to try and help in this difficult exercise but fundamentally governments themselves have to make some judgements on whether they think the volume of trade, price stability etc. are different from what they would have been had there been no such reduction commitments. We must beware of attributing any adverse development in the past 2-3 years to the Uruguay Round. The proper benchmark is the situation that would have prevailed in the absence of the Uruguay Round. In the case of sugar, it is my hope that this Conference will throw some light on this question.

The third operative consideration that countries will have to take a position on what is called non-trade concerns. Now "Non-trade concerns" are potentially a very wide set of issues but probably are mainly to do with food security and the need to protect the environment. Sugar of course figures in both and I shall return to both these matters in a while.

The fourth operative matter is the need to take into account the special and differential treatment to developing member countries. Now this special and differential treatment is already included in the Agreement and in the country schedules so that it is not quite clear what is meant at this point although the very fact that it is mentioned means that developing countries need to judge whether the Uruguay Round has given them such special and differential treatment.

The rest of Article 20 refers back to the main objectives of the reform programme including taking into account the possible negative effects of its implementation on the least developed and net food importing developing countries, another matter that I shall return to in a moment.

What are we to conclude then about 1999?

First, it seems to me that governments should have underway plans, assessments and options to deal with the topics to be discussed in, and after, 1999. Most of these analyses are difficult and time is therefore needed. FAO is committed to help developing countries in this endeavour.

Secondly, there are some particular subjects deriving from the experience gained with implementation that could be taken up next time. These would surely include tariff quota administration, under which a number of countries import sugar, and state trading including both importers and exporters. In this context, some have queried price pooling by parastatal trading bodies, a matter that could be of considerable interest to some sugar exporting countries.

Thirdly, new areas like environment will probably figure in 1999. Important work is currently underway at the WTO Committee on Trade and Environment, where various alternatives are being discussed including possibly change in the Article 20 of the GATT concerning general exemptions. During the Uruguay Round, the Sanitary and Phytosanitary agreement grew out of one clause of Article 20. The issue could eventually be related to whether protection of the environment could in the future go down the same route as sanitary and phytosanitary measures. But environment could also be concerned with sustainable development, eco-labelling, and recycling and re-use rules. It is unclear to me how much this would affect sugar but it will need to be watched.

Fourthly, if further trade liberalization occurs then surely this will imply a further erosion of the value of preferential trade with all that this might entail for numerous developing countries earning good money on their sugar quotas. For many preferences receiving developing countries, eventual changes in the Lomé Convention could complicate the effects of further generalized trade liberalization. As changes in the Lomé Convention are shortly to be discussed at the November meeting, I shall not discuss this related point here. Mr. Chairman, the preference loss question is perhaps the most difficult

part of trade liberalization to wrestle with. It is where the generally perceived advantages of a move towards a fairer and more market orientated trading system can lead to losses for some countries as preferential access loses its value. Both sides on this question should recognize the dilemma and solutions should be found in a multilateral spirit. One of the obstacles to arriving at a solution is that some countries do not agree that losses of benefits deriving from preferential trade need to be compensated. For them the argument is couched in terms of WTO principles. Yet perhaps the issue is a wider one of general welfare economics. This would say that moves towards great resource efficiency that at the same time lead to some participants suffering decreases in income cannot be said to lead to an increase in global welfare when the losers are among the poorer groups. At the same time there is room, in most cases, for developing countries to reform their own production and processing systems to improve efficiency, to reduce costs in order to be competitive.

Before turning to the three issues that I wish to highlight, I would like to note that over 120 developing countries are net importers of sugar. In this connection, the Uruguay Round Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries is worth noting. As you will recall the World Food Summit called for the full implementation of this Decision. Each March it is up to the WTO Committee on Agriculture to revise the list of the Net Food Importing Countries. All LDCs would be automatically eligible for any assistance under the Decision but other developing countries need to substantiate their net import position in food, including sugar. Progress to date has been slow although some advances were made at Singapore.

Mr. Chairman, the three topics that I consider to be the big themes in current agricultural policy debate are first a continuation of policy reform, second the environment and third food security.

On trade liberalization, existing studies show that the effects on sugar of the Uruguay Round are small but that more thorough going liberalization in sugar could have more substantial effects with higher world prices, lower preferential margins and increased exports from non-subsidizing sugar exporters. An interesting question to my mind in all this is what would happen to High Fructose Syrup if there were a simultaneous reduction in protection in both maize and sugar. Another interesting aspect concerns price stability. Trade liberalization is usually expected to improve world price stability but that need not be the case especially taking into account the probability of lower government stockholding of sugar. Therefore, the recent improvement in price stability since the late 1980s, I believe, may not necessarily get better with further trade liberalization. This point would require further research - in the case of cereals FAO has already undertaken similar research and it would be useful if the same were done for sugar.

What does seem likely is that some further trade liberalization will eventually take place in sugar. Now some sugar exporting countries including several developing countries would clearly benefit from trade liberalization in the sector. However, many other preference receiving sugar dependent developing exporting countries could face a reduced value of exports on that part of their exports receiving preferences and hence may require some "special and differential" treatment. Perhaps a package of assistance to boost productivity; some assistance in diversification, greater emphasis on value added products

and/or a further period of adjustment may all be required to help these countries. Net sugar importing developing countries could, as I said above, consider domestic policy changes and take into account the Uruguay Round Decision, which provides for various types of help. I need hardly say that in assisting countries with appropriate policy responses and in developing policy options, the FAO stands ready to help.

Environment has been one of the growth areas in policy in recent years and may well figure more prominently in 1999 discussions. This is not the right occasion for a lengthy exposé of how environment and trade concerns interact but the general drift of thinking in this area is that if environmental protection is going to be a justification for trade restrictions it would have to be a bona fide concern not a disguised form of protectionism. While such rules are mostly unlikely to be commodity specific, they could have commodity implications including for sugar. Our approach in FAO to assessing the trade impact of environmental measures is to examine the compliance cost with such regulations in importing countries. If it costs more for the exporter to comply with the importers environmental regulations than a local producer in importing countries then the trade effect is equivalent to protection.

Another area of environment and trade interaction is where there are environmental side-effects of production or processing. When governments regulate to reduce negative effects, this can increase costs to the producer or processor. In FAO we have estimated these costs for a number of commodities and while they usually are not very high, in some cases they could become so. The so called "internalization" of environmental costs could clearly affect competitiveness and pressures may well grow on all countries to internalize such costs. FAO has developed a methodology on the measurement of such costs, which has not yet been applied to sugar. Finally, there is one important environmentally linked sugar policy, which has often been noted - the use of sugar or bagasse into energy, i.e. the replacement of a resource mining - activity (petroleum) by a sustainable alternative. At current petroleum prices this option may not always be so attractive.

Finally, it is always good to finish a speech by talking about food but I am sorry I am not the man in charge of refreshments - It is food security that I would like to refer to. For all of us at FAO the World Food Summit last November was a very special occasion. Commitments were entered into by the world community that put food security close to the top of our consciousness. Without food security there can be no peace and prosperity let alone clear consciences for those who have their own food security while others are without.

How does sugar fit into this over-riding objective? Well it has several basic contributions to make. First of all it is a food - just under one-tenth of calories world-wide derived from sweeteners, principally sugar. You will have an opportunity to debate this subject later in the Conference but it is an awful lot of food by anyone's reckoning.

Secondly, it is a major source of income to millions of small farmers in the developing countries. Their food security is directly related to their income - after all the first cause of hunger is poverty. FAO is currently engaged in some research on the link between small farmer's incomes from the export of agricultural commodities and their food security - our pilot studies have been done on tea but much the same methodology could be extended to sugar. We would be happy to collaborate in such work.

All foodcrops and income earning crops for small farmers have problems of stability both in production and in earnings. Sugar helps stability of overall food production if it is itself stable or if it offsets fluctuations in other crops. Sugar helps stabilize incomes if its price and quantity movements are relatively stable or if they offset changes in other sectors. Historically, I do not think that sugar could be described as particularly stable but in recent years it looks to me as though things

have improved. Certainly it is hoped that ongoing policy change towards a more stable policy framework for the conduct of world trade will contribute but, as I said before, this is an area where further research is required.

The World Food Summit recognized that developing countries would need assistance in managing the changing world policy environment and called upon the international community including FAO to help and this is indeed what we are doing and planning to do more of. Only these days at Geneva discussions are taking place on how help to the least developed countries can be stepped up. FAO has just prepared its own plan for technical assistance on the Uruguay Round including preparations for 1999. I would be happy to illustrate our technical assistance capacity.

In conclusion, Mr. Chairman (Your Excellencies) reform is pressing on the sugar sector. At the very least we can expect some reductions in general tariffs, which while beneficial for global trade could erode the value of trade preferences of many developing countries. The precise pattern of further trade liberalization will influence the competitiveness of sugar with other sweeteners. In the long run sugar must stay competitive with other sweeteners but in the medium run adjustment needs to be handled with care and sensitivity to the multifarious interests involved. What may be required is special consideration for some exporting low income countries, i.e. those that enjoyed preference earnings in the past and could suffer losses of earnings due to an erosion of preference margins. I would assume that the large number of net sugar importing countries can, through a combination of their own effects and various types of assistance, manage an eventual increase in world sugar prices. In this complex path of reform, FAO stands ready to help. I look forward this week to learning more of the complexity and more about the path to be followed.