
CONFERENCE SUMMARY

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In retrospect, it is a difficult task to draw together the many threads of the rich and multifaceted deliberations which took place at the Cuba/FAO International Sugar Conference in Havana on 7-9 December 1999. The theme of the Conference was "Sugar: Sustainability in the 21st Century - Outlook to 2005 and Inter-Regional Competitiveness," and the many speakers explored the various dimensions of this sustainability and the factors influencing the longer term profitability of sugar. Therefore, the following represents a very summary overview of the main issues discussed at the Conference, analysts and interested readers can delve more deeply into various topics by consulting the papers of individual experts which have been brought together in this collection of Proceedings of the Cuba/FAO International Sugar Conference.

There was one central point of departure to link all of the aspects that were discussed: price. Throughout the Conference, the world market price was clearly of concern to both producers and consumers in terms of its impact on the sustainability of production and the availability of regular supplies to the market. In real terms, current prices were at the lowest level ever. The general sentiment was that in the short run certain market factors such as the high levels of world stocks; weak demand in some major markets, particularly in Asia; and the continued growth in production, notably in Brazil, but also in a number of other countries would continue to exert downward pressure on prices. Also the effects of currency devaluations in some of the major exporting countries had had a significant depressing impact on world market prices. Particularly, the 60 percent devaluation of the Brazilian Real had sharpened competition from that origin, although this effect could begin to wear off as the devaluation influenced subsequently input costs.

Over the longer run, most speakers were somewhat more optimistic, as demand growth was expected to recover to historic rates. The bulk of the growth would be in developing country markets where per capita consumption levels were relatively low and populations would continue grow at about 2 percent annually. Although production would also rise, trade would need to expand at a somewhat greater rate than in the nineties to meet market growth, and prices would recover from recent low levels. This recovery was however subject to some uncertainties deriving for example from developments in Brazil and its alcohol industry (including uncertainties regarding future world oil prices), production expansion trends which were not fully captured in analysis to date (for example in Egypt and in Sudan) and growing capacities geared to the export market in Latin America and the Pacific rim, and the effects of possible reforms and policy changes in a number of major producing countries and areas, including the European Community, the United States, China and India just to mention a few. While discussion mostly focused on low prices, attention was also drawn to the dangers of high prices for sugar, which opened opportunities for further inroads into the market from alternative sweeteners.

In the discussion of sustainability of sugar production, the Conference dwelled extensively on the relationship between world market prices and costs of production. Attention was drawn to the low costs in a number of major producers, which allowed them to export profitably even at low world market prices. There was however some debate about exactly what level that might be, ranging around 10 cents/lb. Attention was also drawn to dynamics of market competition, specifically the pronounced downward trends in costs of production and the need for supplying countries to increase productivity by 2-3 percent annually (assuming constant wage rates). A number of factors were identified as contributing to lower costs, particularly improvements in technology in both the agricultural and industrial sectors. Other factors such as privatization had stimulated investment, but urbanization in some producing areas was leading to higher costs for lands for sugar farming. The importance of developing alternative uses of sugar and of taking advantage of niche markets (for example organics) was also underlined as a means of improving returns from the crop. Attention was drawn to the favourable circumstance of large domestic markets in some exporting countries, which provided a solid base for expansion of the industry and allowed some flexibility in export market pricing. In this connection, attention was drawn to the special problems of the small island developing states, which lacked domestic market opportunities and were highly dependent on exports for revenue, and were thus extremely concerned about world market prospects and likely price evolution.

With regard to the economic significance of the crop, the Conference noted that sugar had extremely important implications for food security and employment in developing countries. There was also a tendency for dependence of these exporting countries on the world market to increase. This dependence was also rising in some major developed sugar-exporting countries. Because of the economic significance of the crop, rationalization measures were difficult to envisage. Nevertheless, many speakers drew attention to the possible pressures to diversify if low prices persisted either because of seasonal production developments or because of structural changes in price/cost relationships which further heightened competition. It was stressed therefore that countries should improve efficiency in both the agriculture and milling sectors if they wished to maintain a role in the world market. The suggestion was made that some developing countries might require special assistance in this regard.

In the overview of sugar regimes, the Conference noted that several regions were taking steps to establish a common position in face of the liberalization process. In some instances, such positions included recognition of the fact that sugar exports from smaller countries to preferential and world markets were very important for their overall foreign exchange earnings. This did not mean that increased protection was being sought but rather the opportunity was needed for these countries to bring about the necessary changes gradually, while seeking to ensure the efficient use of resources and protection of the environment in a way that would also benefit rural populations.

The linkages between policy measures impacting on the sugar economy and price levels were also explored in some detail. While there has been a tendency to move towards less public sector involvement in matters of general economy, the sugar

sector continues to be highly regulated. There was considerable discussion about how sugar support measures, tariff regimes and export subsidies affect the market and price levels. In general, domestic sugar sectors continue to be insulated from world market price trends, support measures have encouraged production growth and market access has been limited or curtailed. In addition, the current structural surplus has resulted in low prices, which could trigger a return to more restrictive trade measures, including increased tariffs, safeguards and greater export subsidies, unfortunately both a consequence and a cause of low prices.

The Conference took note of the implementation of Uruguay Round (UR) general commitments, which was on the whole progressing well, even though there was a number of implementation issues concerning e.g., tariff quota administration and Green Box classification. As regards sugar, it had been less affected by the UR than most other agricultural commodities, with small reductions in tariffs and little by way of lower domestic support. There had however been a more significant cut in export subsidies. Although tariff rate quotas resulted in only a slight increase in general market access for sugar exports, most notifications indicated a very high quota fill. Also only few members have had recourse to the special safeguard mechanism.

The WTO ministerial meeting at Seattle in early December 1999 did not provide the expected Ministerial Declaration, launching a broad-based multilateral trade round. However, negotiations on the continuation of the reform process in agriculture could be said to have initiated on time, i.e. one year before the end of the implementation process, that is end of 1999, in accordance with Article 20 of the Agreement on Agriculture. It was noted that various general issues were likely to be raised during the negotiations, including integration of agriculture into the GATT, further reduction commitments in domestic and export subsidies and border protection, "special and differential treatment", and non trade concerns such as food security and environment protection. Regarding the future, the Conference realized that it was premature to be certain that full MTNs would be launched in the near future but agreed that it was important to undertake the necessary preparations on the assumption that serious negotiations would begin soon.

The general sentiment of the Conference was that when the process actively resumed, sugar, as one of the highly regulated products, was likely to come under some scrutiny. However, while pressures to liberalize the sugar economy exist, there were also concerns about the erosion which liberalization would have on preferential suppliers, an particularly those highly dependent on sugar exports. A number of proposals and ideas were put forward concerning approaches which might be used to meet these concerns.

The Conference noted the complexities of the adjustments which might occur under various policy scenarios. For example, under full liberalization, growers' choices between sugar and alternative crops would depend upon the relative profitability of the cultivation of these crops. Analysis of the trade-offs for a cross-section of leading sugar producing nations suggested that in many of those countries, sugar crops would remain attractive to farmers, even if full liberalization took place in all commodity markets.

The Conference underlined the need for developing countries to be well prepared and for the sugar sector to be vigilant not only in matters such as tariff reduction of direct concern to sugar but also in other sectors and in the rules governing agriculture. Food security and environmental protection both required attention by sugar policymakers. There was also some debate on alternative lines of action outside the WTO framework to assist stabilize sugar markets including undertaking policy reviews, utilizing various fora for discussions of policy issues and in collective action by producers.

Aside from its economic importance, sugar fulfils an important role in nutrition world-wide. The Conference was informed of the diet and health linkages relevant to sugar consumption and utilization. It was stressed that sugar as commonly consumed as part of a varied and balanced diet is consistent with good health, and there is virtually no evidence to link sugar intakes with any particular health problem other than dental caries. The Conference noted with concern that unfounded attacks on sugar consumption continued in many countries, and expressed concern that such attacks might increase as the prevalence of obesity and other chronic non-communicable disease became more widespread.

The potential environmental friendliness of sugar cane cultivation and its contribution to sustainable agricultural systems were discussed. The Conference was informed of the advantages sugarcane cultivation can offer as a raw material for food and energy production, including discussion of procedures which limit the use of chemicals and damage to both the local and global environment, such as the harvest of green cane. The diversification into value-added co-products derived from sugarcane and the milling and refining process was highlighted. The Conference was also informed of the increasing use of cleaner production techniques and the production of organic sugar using natural inputs and preventive measures in response to agroindustry environmental policies in several important sugar producing countries. New technologies to increase the energy generation potential of sugarcane biomass are under development in response to worldwide environmental agreements, such as outlined by the Kyoto Protocol, to reduce the greenhouse effect and recover carbon dioxide from the atmosphere.

The vast amount of ground was covered during the Conference was a reflection of the high level of expertise which was present. I should like to record appreciation to the GEPLACEA and the ISO for their cooperation and contributions and we look forward to continued fruitful cooperation in the future. Special thanks goes to all of the speakers who provided stimulating presentations. Lastly, speaking on behalf of FAO and of all participants, I should like to express warm appreciation to the Ministry of Sugar and to the other authorities of the Republic of Cuba for hosting this Conference which has contributed to a better understanding of issues facing the sugar economy at the opening of the 21st session.