

SUGAR PERSPECTIVES TO 2005 GROWERS' POINT OF VIEW

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INTRODUCTION

Production and consumption of sugar are currently out of phase. 1998 production was above 131 million tonnes, consumption less than 125 million tonnes. The stocks have reached the level of over 45% of consumption, a level not seen for a very long time. This situation cannot go on without doing serious harm to sugar sectors everywhere, so the quicker it is redressed the better for all of us. What levels of sugar production and consumption, and more importantly, what sugar balance are we likely to have by 2005?

Sugar consumption increases, but where and by how much?

On the consumption side, it is far too early to tell whether the apparent halt to the above 2% per annum rise in world sugar consumption – a phenomenon observed for five consecutive years (1994 to 1998) is a temporary blip or the beginning of a number of slow growth years like the early nineties. The first F.O.LICHT world sugar balances estimates that for 1999 consumption will increase by 1.1 million tonnes, less than 0.9% relative to 1998.

This does not really tell us precisely what we can reasonably expect over the next 6 years. It may therefore be wise to look back a little and observe the relatively recent development of world sugar consumption. Between 1983 and 1998, annual consumption growth (using three year sliding averages) has varied from just over 0.6% to 3.35%, a factor of over 5! These two extremes are masked by the average annual growth rate since 1983, which works out at 1.8%. Expressed in actual quantity, consumption has grown by an average of 1.9 million tonnes per year since 1983, but actual year to year consumption increase has varied from just over 0.7 million tonnes to just under 3.3 million tonnes.

It is not a question as to whether or not consumption will increase between now and 2005, but by how much it will increase. By just under 0.7 million tonnes a year? By almost 3.3 million tonnes a year? In the former case, which I would call a worst case scenario, consumption by 2005 would be just below 130 million tonnes, less than 1998 production. In the latter case, a highly optimistic scenario, consumption by 2005 would be over 147 million tonnes. While neither of these scenarios is entirely impossible, they are both highly unlikely. We can therefore narrow down the range a little bit. Using the five lowest growth rates and the five highest since 1983, we arrive at the two "extremes" of 1 million and 2.8 million tonnes a year consumption increase. Projecting these two rates forward to 2005, we arrive at a consumption range of just over 131 million tonnes to just under 144 million tonnes. Projecting the average growth since 1983, i.e. 1.9 million tonnes per year, to 2005, we arrive at just under 138 million tonnes of world sugar consumption.

But where will this **consumption growth** take place?

Here we can expect little from **Europe** and **Oceania**. In Oceania, consumption since 1981 (when it was at the 1 million tonnes mark) has stabilised at just above 1.2 million tonnes and is likely to continue to do so, contributing about 20 000 tonnes to the annual consumption increase at world level. In **Eastern Europe**, consumption in 1998/99 has decreased by almost 3 million tonnes compared to 1981, after having peaked at almost 19 million tonnes in 1987. This negative consumption trend (which on average reduces the annual increase in world sugar consumption by some 190 000 tonnes) appears to have come to a halt. While consumption in Eastern Europe may eventually recover to above 15 million tonnes, it is very difficult to say when and to what extent this will happen. **Western Europe** remains a small and stable factor, with consumption having increased by only 1 million tonnes since 1981, thus contributing just under 70 000 tonnes to annual world sugar consumption growth. At best, we can hope for consumption in Eastern Europe to stop decreasing and maybe even make a recovery by 2005.

Developments in **Africa** and **North & Central America** are slightly more promising. In both regions, consumption has increased by some 3 million tonnes since 1981, adding respectively about 190 000 and 170 000 tonnes on average each year to the annual increase in world sugar consumption. Consumption in North and Central America is now level with that of Western Europe. We can possibly count on these two regions to continue to add altogether some 350 000 to 360 000 tonnes of sugar consumption per year to the world sugar balance. If present trends continue (i.e. if there is no surprise from the HFCS angle in the context of NAFTA), consumption in North & Central America will probably have bypassed consumption in Western Europe by 2005.

Recent developments in **South America** show this region to be regularly increasing its consumption. If the trend particularly of the last 6 years continues, then this region will add at least 300 000 tonnes per year of consumption to the world sugar balance. With present consumption at about 15 million tonnes, consumption by 2005 may well be at over 17 million tonnes, not far behind present consumption in Western Europe.

But this is all peanuts compared to **Asia**. Average annual consumption growth of this continent since 1983 has been around 1.36 million tonnes. This is more than the world's other regions put together and represents over 70% of the net annual increase in world sugar consumption. Even if the decline in sugar consumption in Eastern Europe were to stop and thus bring total net annual increase in world consumption to 2.1 million tonnes, Asia would still represent around 65% of the annual increase in consumption. Thus all eyes will continue to be on Asia for the coming years.

Sugar production....who will produce how much?

Here the situation is likely to develop along slightly different lines.

In **Oceania**, production since 1983 has been increasing on average by just under 130 000 tonnes per year....six times above its average consumption growth and thus increasing its weight as a net exporter.

In Europe, there are two very different scenarios. In **Western Europe**, production has been increasing on average by just over 115 000 tonnes per year. In **Eastern Europe** on the other hand, production since 1983 has decreased on average by just under 200 000 tonnes per year, more or less in line with its decrease in consumption but tending towards an increase in import requirements. Thus, overall sugar production in **Europe** is declining.

In **Africa**, production has been increasing by about 120 000 tonnes per year since 1983, lagging behind consumption growth.

For **North & Central America**, production (which is well above consumption) since 1983 is only increasing on average by 20 000 tonnes a year. This suggests that if the present trends in consumption and production continue, consumption will tend to catch up with production in the long term. However, nothing is more uncertain.

South America's production has been increasing by almost 640 000 tonnes a year since 1983, which is twice the consumption growth. This has reinforced this region's position as a sugar exporter. However, most of this growth has occurred in the 1990's and it is not at all certain if and to what extent this trend will continue.

In **Asia**, production since 1983 increased on average by just over 1 million tonnes a year but has never really managed to catch up with consumption. If this trend continues, and considering the abovementioned annual growth in consumption, by 2005 Asia's deficit will have increased.

I have not attempted to simulate the strong year to year variations that have occurred in the past, particularly concerning production. We will probably have a deficit year (maybe even two or three) at world level before 2005. This would help reduce the stocks to more reasonable levels (30% of consumption) and would in any case be a temporary phenomenon, an adjustment to the present oversupply situation. Neither can it be excluded that Asia comes close to equilibrium for a year or two (as it did in 1991) during this period. I cannot tell you how reliable the developments since the early 80's are as indicators for the next 6 years. What I can tell you is that Asia is the major driving force on the consumption side and that Asia herself as well as South America and Oceania are the ones most likely to fill the gap.

Any supply problems in Africa and Eastern Europe will most likely be covered mostly by both Oceania and South America as well as export availability from North & Central America and Western Europe. But it is important to have a closer look at each continent in order to get a slightly better idea of what might happen and why.

The role of the big players

In Oceania and South America the situation is fairly straightforward: each region is strongly dominated by only one country (Australia and Brazil respectively, although in South America both Argentina and Colombia each carry a certain weight) as regards both production and consumption. The fortunes of these regions will thus be principally determined by Australia and Brazil, which incidentally are both significant net exporters. I would hazard the guess that after a temporary (perhaps for one or two years or more) reduction or stabilisation in production as a response to the present world market situation, Australia and Brazil will continue to increase their production in excess of their increase in consumption. This is likely to boost their weight as net exporters further and/or increase their role in their own region, possibly at the expense of other producers. Within MERCOSUR, the sugar issue is a very hot potato between Brazil and Argentina, while in Oceania Fiji's modest net exports (to a certain extent preferential) are a thorn in the side of the giant Australia.

In Western Europe the situation is different. The main player here is undoubtedly the EU. In the short to medium term, the intention is to reduce total EU sugar production. The cost of both the export of quota sugar as well as the export of non-quota sugar at present world market price levels is prohibitive for EU-farmers, since they have to pay a hefty complementary levy for their quota sugar exports and have to export non-quota sugar at a loss. Their goal is to reduce non-quota sugar production until prices on the world market improve. CIBE (International Confederation of European Beet Growers) already advised its members a year ago to reduce beet area in 1999 and this was followed to a certain extent by some countries, notably France, Denmark, Austria and Germany. Those which had had a disastrous 1998 campaign (like Belgium and the Netherlands, which hardly produced their quota even with the sugar carried forward from the previous year) increased beet area mainly in order to make sure to produce 1999 quota and carry forward sugar for 2000. Ironically, despite an overall reduction in beet area, sugar production in the EU is very high this year, chiefly due to a very good growing season. As early as last September CIBE agreed to call for a further reduction in EU beet area in 2000.

There are other factors that may influence EU sugar production in the future. It is very likely that quota sugar production in the EU will be reduced next year due to WTO commitments. The most likely consequence of this is yet a further reduction in total sugar beet area in the EU in 2001.

In Eastern Europe the situation is uncertain: Poland, Russia and the Ukraine are the main players on both the production and the consumption side. The sugar sectors of both Russia and the Ukraine have suffered a serious crisis that has negatively affected both production and consumption. Whether this crisis is now at an end and if and to what extent these countries will recover is beyond the scope of this report. Things may look a bit clearer by 2005, then again they may not.

Another big question mark that concerns all of Europe that may already have an impact by 2005 is the future enlargement of the EU. Out of the 12 applicant countries, five (Poland, Czech Republic, Hungary, Estonia and Slovenia) are already conducting negotiations with the EU. All but Slovenia are part of Eastern Europe. Thus the EU will eventually include countries from both Eastern and Western Europe and thus acquire a slightly stronger role within Europe as regards sugar, but not necessarily at world level. In that context, the role of the EU between now and 2005 will at best remain stable (13 to 15% of world sugar production and 11 to 13% of world sugar consumption) or, which is more likely, continue to diminish.

The situation is also complex in North & Central America: on the production side, both the decline of Cuba as well as the rise of Mexico and Guatemala and the consolidation in the USA in the 1990's have combined to give a fairly stable level of production over time, while the modest but steady consumption growth is mainly attributable to the USA. When and to what extent will Cuba's sugar production recover? Will Mexico and Guatemala continue to expand once world market prices have recovered? How quickly and to what extent will this happen?

A big factor of uncertainty is the North American Free Trade Agreement NAFTA. What are its implications for the world market? On October 1, 2000, Mexico's duty-free import quota to the USA will increase tenfold...to 250 000 tonnes. At whose expense? The US sugar producers'? The forty-odd Tariff Rate Quota holders', who in the context of the USA's WTO commitments, import 1.1 million tonnes into the USA every year? What, in response to the new situation, will be the provisions of the 2002 US Farm Act? Will the USA have room for a considerable amount of second-tier (duty-paid) Mexican sugar by 2004, date by which such imports become economically interesting because of the progressive annual reduction of the GATT-enshrined tariff? Will Mexico's sugar then flood into the USA? What effect will U.S. HFCS imports into Mexico have on sugar consumption in Mexico? Will HFCS displace sugar? How much sugar will be displaced? How will the Mexican sugar industry react? Produce less sugar? Put more sugar on the world market? By 2005, all this is likely to be a little bit clearer.

Egypt and South Africa are the big players in Africa as regards production and consumption, but neither dominates. Both appear determined to continue to increase production in the long term. South Africa is not free of uncertainty at the moment, but it also has great potential and I certainly look forward to next year's WABCG congress in Durban in order to learn more about South Africa and its sugar sector. Provided there is stability, this country can further increase its role as a net exporter of quality sugar. There is particular potential in the various free trade agreements that are being established on the African continent.

In Asia, finally, the situation is more complex still. First of all the waking giant (India) and the light-sleeping giant (China) on the production and consumption side.

We must remember that India and China together account today for over one third of the world's population!

Indonesia, Pakistan, the Philippines and Thailand are also important producers and consumers of sugar, while Japan, South Korea, Malaysia and Iran are hardly insignificant consumers. Here is where the lion's share of growth in production and particularly in consumption will probably continue to take place in the coming years. Since population growth in practically every country in Asia is quite fast, it is very likely that by 2005, Asia will be an even bigger heavyweight as the world's principal sugar consumption region and possibly import region. A final question mark in the Asian region is the possibility of China bringing its saccharine sector under control. Some 4.5 million tonnes sugar equivalent saccharine are consumed in China, and the government wishes to reduce this consumption by 1.5 million tonnes sugar equivalent. Will China produce all of this extra sugar required? Or will there be more sugar imports? If anybody here has the answer to that last question, please let Australia, Thailand, Brazil and (if high quality white sugar is required) the EU know about it.

Globalisation = global uncertainty?

The coming WTO round of multilateral trade talks has just begun in Seattle. These talks are scheduled to conclude by the end of 2003 at the very latest. What will be the results of these talks and what will be their implications for sugar in the different regions? We all know that different countries have different objectives and therefore different expectations from this WTO round. How "level" can the playing field become? How many players can be on it? Australia produces over 5 million tonnes of sugar with fewer than 7 000 growers, Denmark produces just over half a million tonnes with about the same number of growers as Australia, Jamaica produces just over 200 000 tonnes with about 14 000 growers and Greece produces just over 300 000 tonnes with well over 20 000 growers. What does "fair" trade mean to growers from these (and other) countries? I am certain that the interpretations differ, and this will undoubtedly be reflected in the trade talks. I have learned through my work in WABCG that almost all countries have some kind of protection and/or support of their sugar sector because of the big investments involved. Especially many developing countries are likely to be hurt if the present situation of full-tilt liberalisation continues.

But whatever the results may be:

Western Europe (and more particularly the EU) is not giving up its export vocation and will continue to export sugar. However, it is clear that on average the net quantities will be moderate in comparison to Australia and Brazil. These quantities will be even more moderate when expressed as a proportion of domestic production and consumption. Undoubtedly the EU's weight at world level will continue to decrease in favour of other net exporters such as Brazil, Australia, Thailand, Cuba, Colombia and Guatemala.

CONCLUSION

I am certain that no sugar beet or sugar cane grower is happy with the present situation on the world market. The short term prospects are not very rosy either. But as farmers, we must be optimistic and try to do what we can to weather the current low and to improve conditions for the road ahead. If we all continue this headlong rush forward, thinking that the "market's blowtorch" will spare us, we will all lose a lot of money and our future will be none the brighter for it. What we must do is to practice a little production discipline, just for the time it takes for stocks to be reduced and consumption to catch up. If we all work together to do this, I am certain that by 2005 the sugar situation will have improved a lot.