Important commodities in agricultural trade: sugar

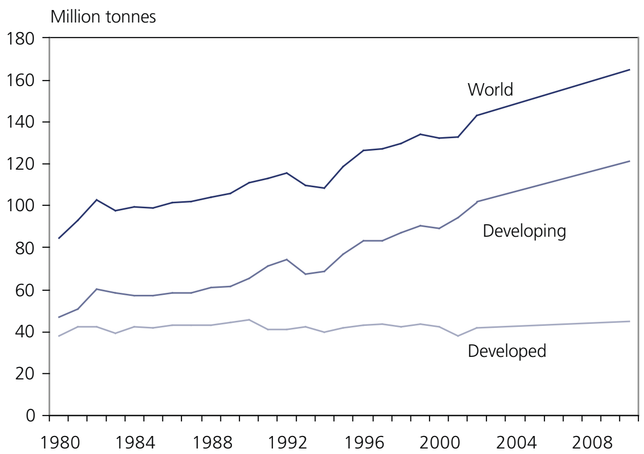
SUMMARY

- *Sugar production and exports are crucial for many developing countries, but trade and prices have been falling.*
- *Domestic support and tariff levels are high in developed countries, creating huge trade distortions.*
- *The Uruguay Round produced only a small reduction in trade distortion; significant progress in the Doha Round is important for many countries.*

MARKET GROWTH IS OCCURRING MAINLY IN DEVELOPING COUNTRIES

Sugar cane or beet is produced in over 130 countries with sugar cane 65 to 70 percent of global production. Global sugar production was nearly 143 million tonnes in 2002. Developing countries will account for nearly all future production growth through 2010, thus raising their share from 67 percent in 1998-2000 to 72 percent by the year 2010. Production is becoming more concentrated among countries. In 1980, the top 10 producers accounted for 56 percent; by 2001, they accounted for 70 percent. World sugar consumption is expanding, reflecting rising incomes and shifts in food consumption patterns. Developing countries account for more than 60 per cent of current global sugar consumption,[1] and these countries – particularly in Asia – are expected to be the primary source of future demand growth.

Figure 1: Sugar production and projections



Source: FAO

INTERNATIONAL TRADE VALUES FOR SUGAR HAVE DECLINED

International trade in sugar and sugar products has contracted because domestic supports in countries where it is heavily subsidized have increased production, eroding markets for exporters, including those under preferential trade agreements. The proportion of production exported has declined. Sugar exports are fundamentally important to many developing countries,[2] however, export values decreased from US$9.8 billion in 1980 to US$6.4 billion in 2001, due to lower prices and volumes. This is even more pronounced for the low-income food-deficit countries (LIFDCs); their share of world exports decreased from 42 percent in 1980 to 15 percent in 2001. Brazil, however, has dramatically increased its exports over five years, driven by record production, ethanol deregulation and currency devaluations. Brazil remains the world's most competitive sugar supplier, as it may have the lowest production costs (field and factory) in the world.[3]

POLICY DISTORTIONS LIMIT OPPORTUNITIES FOR GROWTH

There is significant government intervention, both domestically and internationally, in the world sugar economy.[4] The USA and the EU are believed to create the greatest degree of distortion in world markets through high domestic prices while world prices are depressed. OECD expenditure on producer support amounts to well over half the total value of world sugar trade.

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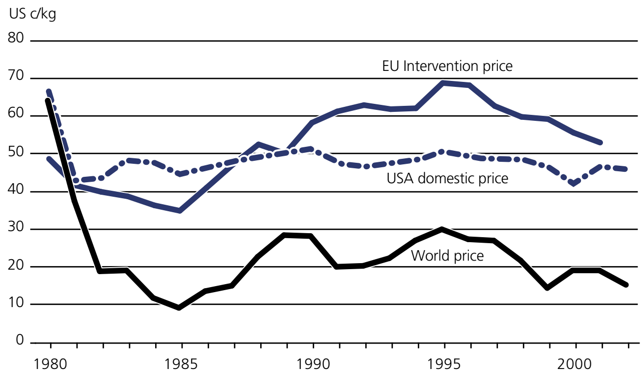
1 The ten largest consumers (on average) include India, the EU, Brazil, USA, China, the Russian Federation, Mexico, Pakistan, Indonesia and Japan.

2 The top ten sugar exporters (on average, for both raw and refined sugar) include Brazil, the EU, Australia, Thailand, Cuba, Guatemala, India, South Africa, Turkey, and Colombia.

3 LMC Worldwide Survey of Sugar and HFCS Production Costs, 2000 Report, Oxford, LMC International

4 For a more complete discussion of current sugar preferential trade agreements and the impact of several sugar trade liberalization scenarios on the global sugar economy, please refer to FAO (1999), Effects of trade liberalization on the world sugar market.

Figure 2: Sugar prices



Source: FAO

The EU sugar regime operates under the Sugar Protocol and Special Preferential Sugar (SPS) regimes with fixed quota levels. Increased market access for LDC sugar-producing nations will be granted as part of the EU Everything But Arms (EBA) initiative. However this increase will be at the expense of existing ACP quota holders, who will face erosion of preferential access and prices for the next 6 years. Sugar production contributes 20 percent of GDP and employs 30 percent of the workforce in ACP sugar-producing countries.

Sugar programme supports in the USA depend on a tariff rate quota (TRQ) based on domestic output. Production increases have reduced import quota volumes to the WTO-mandated minimum. This decline and price erosion have redirected production from developing countries into world market channels. With low capacity utilization and high production costs, this has forced many Caribbean sugar producing nations into crisis: Cuba, Jamaica and St. Kitts-Nevis have either closed their industries, or diversified former sugarcane areas.

Protective supports have encouraged the use of alternative sweeteners such as high fructose corn syrup, eroding the natural sugar market, especially in the USA and Japan.

Market access will be of considerable concern during the Doha Round. Tariffs are very high relative to other agricultural products, with trade policy tools including tariff rate quotas, export subsidies and reference pricing. Domestic support is also high and includes production quotas, producer price guarantees, processing loans, regulated consumer prices, limits on production of alternative sweeteners and state protection and/or intervention through ownership or investment in domestic industries.

Uruguay Round negotiations resulted in minimal reductions in sugar trade distortions. Market access has not improved and production subsidies distort global markets to the disadvantage of developing exporters. Global adjustment to significant sugar policy reform could be considerable - production may gravitate toward the most efficient, low-cost cane sugar producers, including Brazil, Guatemala, Colombia, and those of southern and eastern Africa.

Table 1: Domestic producer support to sugar, per year 1999-2001

	US$ billion
Total OECD	6.35
Of which	
EU	2.7
USA	1.3
Japan	0.4
Value of World Trade in Sugar	11.6

Source: OECD

Key challenges

- *To reduce trade distortions that limit key production and trade opportunities for developing countries;*
- *To reduce developed countries' protection measures such as domestic support, price guarantees, quotas and tariffs which distort the global sugar market;*
- *To meet the Doha Round call for greater market access for LDCs.*

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