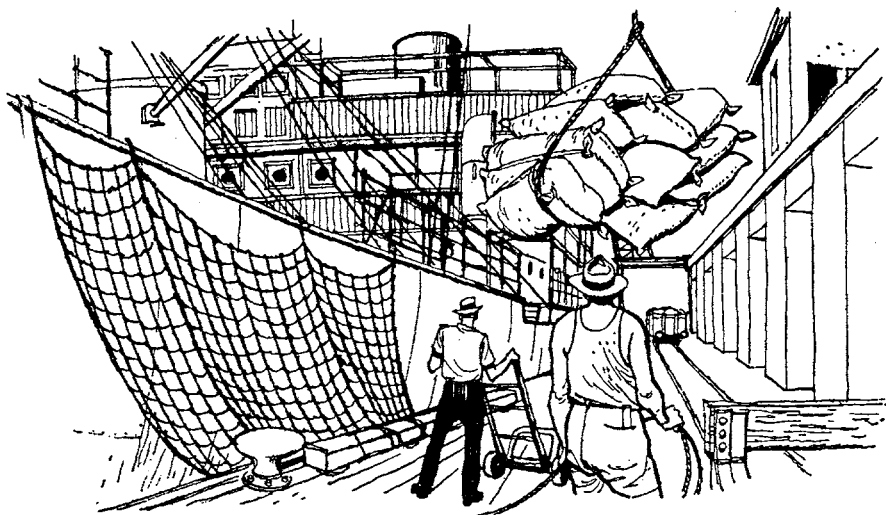




CHAPTER 3

The Structure of Sugar Markets

J. M. DIXON

Much of the later story of postwar expansion in Australia and Fiji, the strict control of farm acreages in Australia, the income and future stability of cane farming and milling, depends on an understanding of the market position. "How a market can be created for produce, or how production can be limited to the capacities of the market": J. S. Mill's phrase could be an apt description of the problem confronting the South Pacific sugar industries which is discussed in this chapter. But it is a complicated situation and it would be misleading to over-simplify it.

The writer has long been directly associated with marketing sugar in internal and export markets and has attended many of the important conferences on sugar in London from 1949 onwards.

September 1955

WHEN she buys her four lbs. of sugar or tin of golden syrup at the local grocer's shop, Mrs Taylor in London, Mrs Turner in Vancouver, Mrs Thompson in Melbourne, or Mrs McTavish in Dunedin never pauses to think of Indar Singh, a cane grower of Nandi in Fiji, or of Roy Pearson, of Ingham in northern Queensland. But the well-being of Mr Singh and Mr Pearson and of the owners and employees of C.S.R. depends upon the buying habits of Mesdames Taylor, Turner, Thompson and McTavish. These ladies with their many small purchases symbolize the refiner's market. His finished foodstuff is made from raw sugar which is produced at mills in the cane-growing districts and shipped to refineries at home and abroad.

Refined sugar markets are predominantly internal rather than export markets. Refined sugar is discouraged in international trade because many countries wish to have their own refineries and have implemented this policy by imposing higher import duties on refined than on raw sugar; and there are many other reasons why refineries are mainly located near centres of consumption.

In countries which are not self-sufficient in sugar, the refiners import the raws. To the mills, the refiners constitute the market. The sugar of international commerce is predominantly raw sugar and we refer to this international market as the raw sugar market.

The History of Oversupply

Over-saturation of world raw sugar markets was an unforeseen eventual outcome of one of the great wars when Napoleon, blockaded by the British Fleet, sought at least partial self-sufficiency by encouraging production of sugar from beet. Production of state-subsidized beet sugar got out of control in several countries on the European continent in the second half of the nineteenth century, outstripping its original purpose. These countries then applied a system of bounties on exports to relieve their internal markets from the pressure of oversupply. In consequence they flooded the international markets with bounty-fed beet sugar, to the great distress of cane sugar exporters, including Fiji, Mauritius and the British colonies in the West Indies. Although Australia was not a regular exporter before 1924, the pressure of cheap imported sugar depressed the Australian industry, at times with great severity.

There were about seven unsuccessful international meetings on the problem of sugar markets between the 1860s and 1900. Then came what seems to have been the first international agreement to control sugar marketing, the Brussels Convention of 1903. This did not raise

prices but it helped to stabilize them and there was no major trend up or down until the 1914 war.

In fifty years from the early 1840s beet sugar production under the subsidy system had risen from some 5 per cent of world sugar production to about 60 per cent. After the Brussels Convention cane sugar held its own in this sense and went on to recover some ground from beet. Today cane sugar comprises about two-thirds of total sugar production in the world.

World War I created a scarcity of sugar by causing beet sugar production in Europe to fall drastically. Market prices rose. In 1913 the price of raw sugar c.i.f. London was £10 to £11 per ton; it rose steadily through the war and in 1920 averaged £65 14s 0d, with a peak over £80 and even a few sales reported at over £100. Cane production, with this stimulus, expanded in many parts of the world. A few years after the war beet production recovered and the price fell; in 1925 it was £12 to £13 per ton, and it fell further to an undreamed-of nadir with the great depression of the thirties. Sugar was much cheaper than for at least 200 years—probably than it had ever been. For a time £1 would have bought enough raw sugar to feed the average Englishman or New Zealander for four years. In 1931 came the Chadbourne Plan, the next attempt at international collaboration to rescue the market from its cruel paralysis, which was causing near-starvation in countries like Java, selling practically all their sugar on the world market.

In Fiji throughout the thirties times were hard and living standards low. They were sustainable due to one factor only, the economic aid given by tariff preferences on Empire sugar entering the United Kingdom and Canada. This enabled Fiji and Australia (by that time an exporter) to sell the whole of their output and get £8 or £9 sterling a ton for sugar freighted to its overseas destination, as against the £5 to £6 sterling obtained by Java and other non-Empire producers who, in addition, still had some of their output unsalable. The Australian industry suffered; but it had the benefit of the higher-priced home consumption market, taking about half the production and yielding the millers and growers three times more per ton than did export sales.

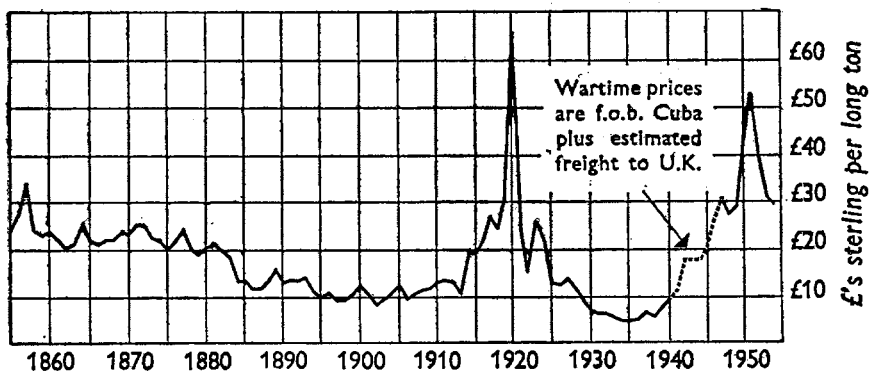
The Chadbourne Plan of 1931 aimed to restrict production and regulate exports in order to raise prices. But the plan was not a success because a number of countries, including the United Kingdom (and consequently the rest of the Empire), did not join in it.

By 1937 there was world-wide acceptance of the gravity of the situation and a conference in London succeeded in effecting the first full International Sugar Agreement. Its principal feature was export

PRICES OF RAW SUGAR—WORLD "FREE" MARKET

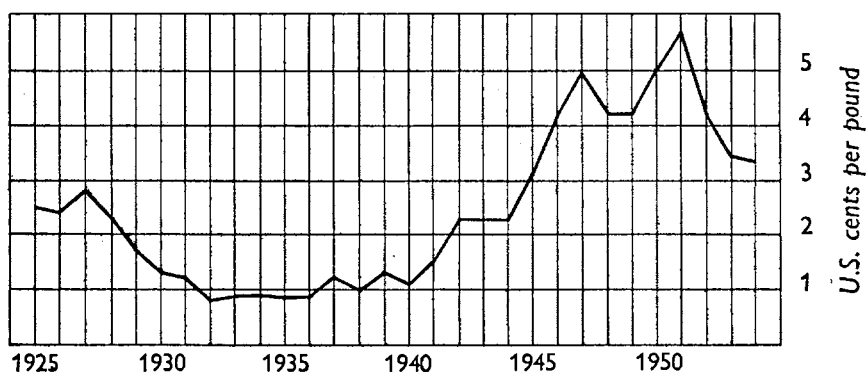
100 YEARS 1855-1954

Annual averages c.i.f. U.K.



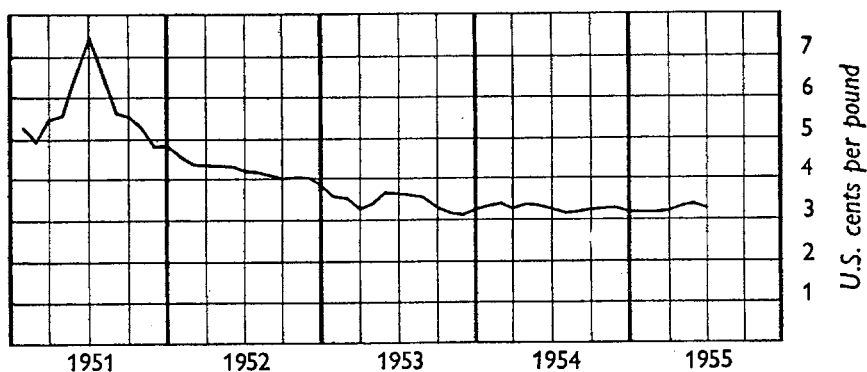
30 YEARS 1925-54

Annual averages f.o.b. Cuba



5 YEARS 1951-55

Monthly averages f.o.b. Cuba



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quotas, limiting exports to prevent too great a pressure of supply on international markets. The standards of living of millions of people and enormous aggregate sums of capital subscribed by countless shareholders were at stake.

World War II intervened before the International Sugar Agreement had time to show its worth. Once more the market situation was reversed and sugar again became scarce. A few countries like Cuba, not closely touched by the war, expanded production and this was a great help to the Allied cause. Output fell in many countries, including Australia and Fiji, and some other countries were cut off by operational necessity or by enemy action. Sugar was rationed in Australia, New Zealand, the United Kingdom, the United States, Canada and other countries.

Australia, Fiji and the other Empire exporting countries, which had previously had the benefit of Empire preference, accepted from the United Kingdom for a number of years a lower price than the ruling international price. Even New Zealand, although she had always refused to grant tariff preference, was allowed to obtain her supplies from Fiji and Australia at this same low price. Consumers in Australia for a period of years obtained their sugar from the Australian industry much cheaper than the ruling international price.

From long experience and knowledge of sugar markets the company was sure that overproduction and depressed international markets would arrive again. For the history of sugar for 150 years has shown that only in wartime and in postwar booms have unprotected and unassisted sugar producers known real prosperity, and then it has been short-lived and unhealthily overdone. At every possible opportunity the company urged the Australian and Queensland Governments, the Colonial Office and other authorities in London to work towards a new International Sugar Agreement. The Sugar Board and other organizations in the Australian sugar industry took similar action.

British Commonwealth Sugar Agreement

Meantime another development was under way. The British Government, anxious to obtain sterling sugar to ease the drain of dollars for Cuban sugar, anxious to lift rationing, and already committed to buy all the export raw sugar from the Empire up to 1952, accepted the concept of an agreement of still longer term. This was first discussed at conferences in London in 1949, when agreement was reached on some major principles. Negotiations continued over three years and in December 1951 the British Commonwealth Sugar Agreement

SOUTH PACIFIC ENTERPRISE

(B.C.S.A.) was signed. It is a governmental contract on the United Kingdom side and in the case of Australia.

Because this book is primarily about the company and what it does, it is appropriate to mention that throughout these long, difficult and ultimately successful negotiations Fiji was represented by the company's resident General Representative in London and an officer from its head office was prominent in the Australian delegations. C.S.R. fully realized how vital it would soon become to all growers, employees and shareholders in the South Pacific sugar industries to have markets enlarged in physical size and reasonably remunerative in price.

The stated objective in B.C.S.A. is "to have a long-term agreement for supplying sugar to the United Kingdom, for developing the production of sugar in the Commonwealth countries, and for the orderly marketing of that sugar". The period of the agreement is eight years. Priority is given to sales to Canada, a traditional and valuable outlet granting a tariff preference under longstanding reciprocal trade agreements. The main exporting territories are the British West Indies, Australia, Mauritius, South Africa and Fiji.

The agreement provided for expansion, to carefully judged maxima, of exports from British Commonwealth raw sugar producing countries; for working towards an International Agreement to stabilize the "world price"; and for high proportions of the sugar to be sold each year at a "negotiated price", which was to be entirely divorced from the "world price" of the free international market and "reasonably remunerative to efficient producers", a concept judged in practice by reference to cost of production over British Commonwealth exporters as a whole.

The influence of B.C.S.A. on production for export is illustrated by the following figures:

	Quota under B.C.S.A.	TOTAL EXPORTS (in thousands of tons)				
		1948-49 Sept.-Aug.	1949-50 Sept.-Aug.	1950-51 Sept.-Aug.	1953 Jan.-Dec.	1954 Jan.-Dec.
<i>Australia</i>	600	485	384	408	740	641
<i>Fiji</i>	170	124	122	70	175	141
<i>British West Indies</i>	900	685	759	720	872	936
<i>Mauritius</i>	470	387	414	451	474	476
<i>South Africa</i>	200	43	60	62	68	180
<i>British Honduras</i>	25	..	..	..	..	1
<i>East Africa</i>	10	6	2	1	..	..
	2,375	1,730	1,741	1,712	2,329	2,375

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There is an arrangement between B.C.S.A. exporters for redistribution of shortfalls in any year, so that when one exporter has a bad season the others can export more, provided that the total of 2,375,000 tons is not exceeded.

The overall quota or limit of exports for Australia is 600,000 tons, of which 314,000 tons is at the "negotiated price"; the other 286,000 tons sells at the "world price", plus the value of the preference in the United Kingdom and Canada. Fiji's overall quota is 170,000 tons with 125,000 tons at the "negotiated price" and the remainder, about one quarter of her normal production, at the "world price" with benefit of preference. As approximately half of Australia's raw sugar is required for internal consumption, about one quarter of total production is exported at the "negotiated price" and the remaining quarter is exported at the "world price".

The great advantages of this agreement to the exporters were the expansion of exports it enabled, the long-term security, and the considerable degree of price stabilization obtained by the unshackling of a high proportion of exports from the tricky and glut-susceptible "world price" and its sale at "reasonably remunerative" prices. All this adds up to a reasonable degree of confidence which stimulates adequate investment in the fixed assets and plant which are the *sine qua non* of efficient production. The price provisions have already proved their value. When the agreement was negotiated the "world price" was considerably higher than the "negotiated price", but exporters were not to be tempted by that. On the buying side, the British made no unfair attempt to take advantage of that situation; they knew the "world price" for what it is most of the time—an unfair overall price. It is now about 30 per cent below the "reasonably remunerative" negotiated price.

It is not much wonder that on the export side (and Fiji is almost entirely an export industry) the Empire sugar industries have called B.C.S.A. their "charter of existence". Its term has now been extended until 1962. There are yearly conferences in London to negotiate prices and other matters and C.S.R. representatives attend in the interests of Fiji and Australia.

To the United Kingdom the advantages lay in the assured supply of most of her sugar import requirements from sterling sources, thus reducing the drain on dollar funds, and in steadier purchasing power from the Commonwealth countries for British machinery, fertilizers, trucks and tractors. With this agreement Britain finally discarded, in respect of sugar, her long-held policy of maintaining the cheapest possible breakfast table without regard to the standard of living of

the people who produce the food—and this Britain doubtless takes into the reckoning as a major item on the credit side of the agreement. The sugar she gets is not expensive by reasonable standards.

There was some dissension in the early B.C.S.A. discussions, for the problems were complex and difficult and the buyers as well as the producing countries had special problems. But the exporters came under broad-minded leadership and decided to make the agreement multilateral on the selling side; they learned to work together to mould the agreement into a cohesive and integrated piece of marketing machinery. It can have few, if any, counterparts in the history of inter-country commodity buying and selling. The British ministers and senior Whitehall officials, while they were experienced and hard-headed bargainers and never forgot that basically they were buying for British consumers, negotiated as prudent yet venturesome, cautious yet constructive men. There was a general awareness that an agreement with all the features and complexities of this one was a new thing, and that the consequences for good or ill would be vast, vital and long-felt for many people in many countries scattered through the world. There is little doubt that history was made and the agreement is likely to gain in stature as an example of economic statesmanship in the British Commonwealth.

International Sugar Agreement

It will be noticed that Australia, under B.C.S.A., had about half her normal exports (one-quarter of production) as "free" sugar to be sold on the basis of the free market or so-called "world price". Fiji has 45,000 tons or also about one-quarter in that category. This was a comparative weakness in the situation, not protected by B.C.S.A., for these are important segments of total production. In addition to retaining tariff preferences on that sugar when sold to the United Kingdom and Canada, something has also been done, by a new International Sugar Agreement (I.S.A.), to stabilize the price ruling on the world market.

The new I.S.A. was finally negotiated and signed in London in October 1953 by most of the important sugar exporting countries and many of the importing nations of the world. The first of the stated objectives is "to assure supplies of sugar to importing countries and markets for sugar to exporting countries at equitable and stable prices". This objective is to be achieved by export quotas which can be adjusted: downwards, if the price goes through the "floor" of \$u.s.3.25 per 100 lbs. (alongside ship at Cuban port); upwards, if

it goes through the "ceiling" of \$U.S.4.35. The British Commonwealth exporters have an "irreducible" combined export quota which ensures to them the total export rights under B.C.S.A. For 1956 the Commonwealth exporters receive (and have shared out) an increase of 75,000 tons bringing their total quota under I.S.A. to 2,450,000 tons. I.S.A. has not prevented the "world price" deteriorating to a low and unsatisfactory figure for most producers—even going down through the floor—but it has stopped it from falling to absurd levels.

In the sphere of world sugar markets, which has been for nearly a hundred years a sphere of politics first and economics second, not too much should be expected from the new I.S.A. It did what was practicable—rather than what might be theoretically desirable—to stabilize prices and exports somewhere near the *status quo*, in the face of great capacity for overproduction and very high stocks in several countries, including the United Kingdom and Cuba.

This International Agreement is an inter-governmental commitment signed, *inter alia*, by the Australian Government and by the Government of the United Kingdom on behalf of British colonies, including Fiji. Officers of the company again represented Fiji in the United Kingdom delegation and were also among the representatives of Australia. The Australian delegation had official Commonwealth Government status, Queensland State Government participation, Ministerial leadership, and representation from other sections of the Australian industry.

The Three-Storeyed Shop

The sugar markets of the world can be thought of as a shop with three floors, the bargain basement, the ground floor and the top floor.

On the ground floor is the refined sugar sold by refineries, mostly in domestic or home consumption markets. The other two floors are mainly for international transactions, and most of the sugar is raw sugar.

The top floor carries that part of the international trade in raw sugar where the market is safeguarded, in varying degrees, by special arrangements or tariff preferences. On this floor are found nearly all British Commonwealth sugar exports under the "negotiated price" arrangements and British and Canadian tariff preferences. Philippine and Cuban exports to the United States are here, too, because of quota and preference arrangements.

The bargain basement is the floor where "leftovers" from the other two floors are sold internationally without direct, but with plenty of

indirect, price aids. As with any bargain basement, the prices here are sustainable by the seller because of the normal higher margins obtained in the other parts of the shop. A bargain basement is not the place on which one can continuously depend for all supplies; there will be times when there is little offering there. On the other hand, only about 10 per cent of the total world production is sold in the basement and prices are depressed, and often distressed, by oversupply. A few countries, of which San Domingo is one, have to rely solely on the basement but most have access to the other floors for sale of part of their production.

Cuba, after selling about half her sugar to the United States on the top floor, has a quota under I.S.A. for a similar amount (actually 2,214,000 tons) for sale in the bargain basement; there are many other countries, too, with quotas to sell here, next in size to Cuba being Formosa and San Domingo, each with 590,000 tons. The price in the basement has often been a "dump" price, starting with last century's subsidized beet sugar exports from Europe. Unfortunately, because this price is called the "world price", it is often wrongly thought of as a fair standard of sugar values and of efficient production.

The price obtained for some of the top floor sugar—for exports benefiting from United Kingdom and Canadian tariff preferences—is the bargain basement price plus the value of the preference—£3 15s 0d sterling per ton in the case of the United Kingdom. Therefore, although the preferential markets are on the top floor, the price level ruling in the bargain basement is important to Australia and Fiji, affecting about one-quarter of their production in years when the full quotas are produced.

Unusual outlets on the markets of the world are sought for Australian and Fijian sugar but, though some such sales are made, they cannot be relied upon. Through tariff preferences, or proximity, or B.C.S.A. (to which New Zealand has become a quasi-party on the buying side), the export sales for South Pacific sugar production are mainly through the top floor to the United Kingdom, Canada and New Zealand. For the Australian industry the most important market of all is on the ground floor, the domestic market of Australia.

The Internal Markets

The Australian internal market has generally provided a satisfactory price for nearly half the total output of Australian millers. Last year the quantity was 528,000 tons. (In addition there is a small trade in refined sugar to nearby islands outside the overseas agreements.) The

THE STRUCTURE OF SUGAR MARKETS

internal market is preserved for the Australian industry by an Act of the Federal Parliament carrying out the longstanding national policy of supporting the sugar industry. The method, in operation since World War I, is a prohibition on imports of sugar in return for which the raw sugar industry must accept what is judged to be an equitable price. As considerable attention is given to this in other parts of this book, it is sufficient here to mention these bare essentials in order to complete the outline of the market structure which supports the economic life of the Australian industry.

In Fiji the internal market is small, amounting to some 13,000 tons a year, about 7 per cent of target production. The Fijian industry is utterly dependent on export markets.

The market situation obviously enforces the control of production. Though there may be seasonal variations, the annual targets for raw sugar production can be summarized for the next few years, after allowing for population increase in Australia, as follows, in tons *tel quel*:

	<i>Australia</i>	<i>Fiji</i>
<i>For local consumption and nearby islands</i>	550,000	13,000
<i>For export under B.C.S.A. and I.S.A.</i>	600,000	170,000
	1,150,000	183,000

Relation of Various Market Prices

Summing up the relation of the various markets and their importance to the income of millers and growers, the situation in Australia in a normal season (when target production is reached), based on most recent prices, is as follows: the raws allotted for Australian refineries, and to be consumed in Australia as refined sugar, represent nearly half the total production and would return about £46 per ton (94 *net titre*) of raws delivered at mill port; the quarter of production exported at the "negotiated price" would yield about £45 per ton; the remaining quarter, exported at the "world price" plus preference, would return about £31 per ton, or some 30 per cent less than the "negotiated price" exports. The average price for the 1954 season was £41 4s 9d per ton, the free market component being larger than normal.

Fijian production (omitting the small quantity consumed in Fiji) is made up of about three-quarters at the "negotiated price" and one-quarter at the "world price" plus preference; the currency is different

in Fiji but these prices have a relation to each other similar to that obtaining in Australia.

Factors Determining the Welfare of Sugar Industries

What has gone to make the fortunes and misfortunes of the sugar industries in the South Pacific?

The Napoleonic wars of 150 years ago and the British Fleet under Nelson and other admirals; the slavery of Africans and its abolition; the continued desire of nations to be at least partly self-sufficient in sugar or to have assured sources of supply in time of war; duties, taxes and tariff preferences; "dumping" and subsidized exports; the vital need to populate tropical Australia; the indenturing of labourers from the Punjab, Madras, Bengal and other parts of the Indian sub-continent; the pressures generated by the need to provide a living for many millions in tropical cane-producing countries; decades of international conferences; sunlight on a green leaf; rain, flood and drought; cane pests and diseases; the efficiency of agriculturists, of cane and beet breeders, of sugar factory technologists; the foresight and decisiveness of capitalists and modern administrators; capital from tens of thousands of shareholders for bigger and better machines and factories; human effort: all this fascinating blend of science, natural causes, politics, sociology, economics and business management. But this is looking backwards. In looking forward the factor which looms largest is the buying habits of the aforesaid Mesdames Taylor, Turner, Thompson and McTavish.

In the South Pacific sugar industries, in common with the rest of the sugar world, practically all that is possible by international and other marketing arrangements has been done to expand production and to ensure "equitable and stable prices" to consumers and producers. But how can producing areas develop further and sustain increasing populations? Price for raw sugar is one thing, but what of quantity and volume of production? The future for producers lies very much with the four housewives and their youngsters growing up. If their habits in eating sugar and sugar-containing foods should change, so will the fortunes of producers because, since sugar markets are now tightly organized, the level of production is controlled by the number of consumers and the amount of sugar consumed per head. Compared with other household foods sugar is one of the cheapest, and the best way to encourage people to keep consuming sugar, or to consume more sugar, is to keep it cheap. This policy underlies the methods and organization discussed in chapters which follow.