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White, F. - ARTICLES and Speeches (1964)

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April 14, 1964

WORLD SUGAR SITUATION

1. The purpose of this memorandum is to review briefly the world sugar situation and to try to indicate what the long-term price range may be.

I. Background

2. For almost a decade, excluding the Suez crisis, the world sugar situation had been characterized by a surplus situation. This was reflected in the trend of prices, shown in Tables I and II, when the world price fell to the 3-cent per lb. level or below in 1960, 1961 and 1962 compared with 4 cents per lb. or higher ten years earlier.

3. When the United States broke off diplomatic relations with Cuba in mid-1960 a substantial change in the world sugar situation was inevitable. Cuba's share of the U.S. market (about 3 million short tons out of a total of nearly 10 million tons) was re-allocated in various ways by the U.S. government. As a result many countries were anxious to share in the U.S. market on account of the so-called preference price which may be seen in Table II.

4. At the same time Cuba turned to the centrally planned economies as the main outlet for its sugar.

5. During the last quarter of 1962 the world price for sugar commenced to rise as the market was shifting from a plentiful to a tight situation. This was attributed to a reduction in the 1962/63 world production caused by a fairly sharp contraction in Cuban output, which had already declined the previous season, and unfavorable growing conditions in Western Europe. In addition, the Cuban crisis of mid-October 1962, when sugar hoarding began, the continuing uncertainty concerning the Eastern countries' sugar policy and the U.S. Sugar Act amendments of 1962 intensified the short-crop problems.

6. During 1963, the world price of sugar fluctuated widely, reaching its first peak in May of 9.9 cents per lb. and its second even higher peak in November of 11.6 cents per lb. compared with the 1963 average of 8.3 cents per lb. as shown in Table I. Hurricane damage in the Caribbean area, frost damage in Brazil and poor beet crop prospects because of drought in the Soviet Union caused the recent 1963 price upswing. Because the sugar market is extremely sensitive to the least titbit of news, it is quite possible that the impact on price of some of the reasons may have been exaggerated. It may be of interest to note that the May 1965 futures for the N.Y. #8 world contract f.o.b. on February 14 was quoted at 6.9 cents per lb. compared with a March 1964 quotation of 8.8 cents.

7. An important factor in the world situation at the end of the 1962/63 season was the sharp reduction in stocks to 17% of consumption compared with an average of around 30% in the four earlier seasons. In general, 25% is considered a satisfactory level.

8. The following table summarizes the situation:

WORLD SUGAR SITUATION

(million metric tons, raw value)

Crop year	Production	Exports	Consumption	Stocks <sup>a/</sup>	Stocks as % of Consumption
1934-38 av.	25.3	10.1	24.0	5.0 <sup>b/</sup>	21
1948/49-1952/53 av.	32.2	11.1	31.6	7.4 <sup>c/</sup>	22
1953/54	38.4	n.a.	36.8	12.0	33
1954/55	37.6	n.a.	38.3	11.4	30
1955/56	39.4	16.6	40.4	10.1	25
1956/57	42.1	17.0	42.2	10.2	24
1957/58	44.8	16.9	44.7	9.9	22
1958/59	50.9	16.5	47.6	13.8	29
1959/60	50.1	17.0	49.2	14.6	30
1960/61	56.0	21.9	52.6	17.2	36
1961/62	51.9	21.3	55.3	13.6	30
1962/63	50.9	18.9	54.6	9.4	17
1963/64 (estimate)	54.3	18.2	55.8	8.4	15

Note: Due to the different sources used, the figures may not be entirely comparable and they do not clock-out exactly.

a/ End crop-year stocks, i.e. August 31 of last year shown.

b/ As of August 31, 1938.

c/ As of August 31, 1953.

Source: Various issues of Production and Trade Yearbooks, FAO and of Sugar Year Book, International Sugar Council for pre-war and 1949-53, other years various issues of International Sugar Reports, F.O. Licht.

## II. Current Situation

9. Since the future level of world production of sugar is the most important factor within the over-all situation, the 1963/64 estimated output is examined in somewhat more detail than the earlier years. The output of the centrally planned economies is shown separately because ever since mid-1960 a new pattern within the world sugar market has been emerging in which these economies are becoming a major trading region. (See paragraph 4 and section II (b).)

10. The well known long-standing trading areas (the high-priced preference groups) for sugar are the United States whose requirements are covered by its Sugar Act (see paragraph 3), the United Kingdom and the Commonwealth Agreement, the French Group, the Portuguese area and most of the other areas in Western Europe. The remaining areas of the world are known as the "free market" or world market. Formerly they came under the International Sugar Agreement.

11. In December 1961, the Agreement ceased to operate owing to the high Cuban quota claims. Although the framework of the Agreement still exists and will continue until the end of 1965, quota regulations have been abolished. As already mentioned, Cuba has turned to the Soviet Union and by a series of trade agreements has shifted its main sugar outlets to the Eastern countries.

WORLD PRODUCTION OF SUGAR  
(million metric tons, raw value)

	1959/60	1960/61	1961/62	1962/63	Estimate 1963/64
Eastern Trading Area					
Eastern Europe	9.4	11.8	10.9	10.4	10.2
Soviet Union	(6.3)	(7.1)	(6.8)	(6.7)	(6.2)
Cuba	5.6	6.8	4.8	3.8	3.3
China, Mainland	1.0	0.9	0.9	1.0	1.1
Total	16.0	19.5	16.6	15.2	14.6
All Other Areas	34.1	36.5	35.3	35.7	39.7
World	50.1	56.0	51.9	50.9	54.3

Source: Op. cit.

(a) World, excluding Eastern Trading Area

12. Estimated world production for 1963/64, excluding the Eastern Trading Area, shows an increase of approximately 10% over the previous season and almost that rate of increase over the previous record high, 1960/61 as shown in the above table. Since the end of World War II, a great many countries have been aiming for self-sufficiency and a saving of foreign exchange, while others have been trying to increase their sugar export earnings.

13. In Latin America, where most of the sizeable producers are also exporters, moderate increases are expected this season in the Dominican Republic, Mexico, Brazil and Peru, while in Argentina the rise may be substantial.

14. Sugar production in Africa continues to show a slow but steady expansion. A great many of the newly independent countries have shown interest in the sugar industry. This may be attributed to rising domestic consumption and their desire to cut import spending.

15. Elsewhere, Asian output has more than recovered from the decline in the previous season due mainly to recovery in Indian output and a continuing increase in the Philippines. Although Oceania, as a whole, shows a contraction this season compared with last season, there is evidence of a fairly sharp upward trend in production due mainly to Australia.

16. Next season, it may be fairly reasonable to expect a substantial increase in production because the fruits of the high prices will be reaped since it takes about 18 months to produce sugar. New lands and new factories will be operating. During the current and the previous season the rise in price would be a stimulant for increasing the use of fertilizer and for better cultivating and harvesting.

(b) Eastern Trading Area

17. As may be seen from the above table, output within this area, accounting for almost 30% of the world, has declined for the past three seasons due mainly to the steady decline in Cuban output and to a considerably lesser degree, a lower Soviet Union beet crop.

18. According to press information, the Soviet Union and Cuba have entered into another 5-year trade agreement. Their first agreement was in February 1960 when the U.S.S.R. undertook to buy 5 million tons of Cuban sugar over a 5-year period. The amounts of the recent agreement are as follows:

	(million metric tons)
1965	2.1
1966	3.0
1967	4.0
1968	5.0
1969	5.0
1970	5.0

If these amounts are to be achieved it means that the Cuban sugar industry is to be revitalized by 1967. The success of the Cuban "come back" will determine the amount of Cuban sugar available for markets outside the Eastern Trading Area.

19. The question arises as to whether the Soviet Union can absorb 5.0 million metric tons of Cuban sugar by 1968 or 1970. In 1962 per capita consumption of raw sugar in the Soviet Union amounted to 38 kgs., in total 8.4 million metric tons, after rising steadily from 22.8 kgs. (4.6 million metric tons) in 1956. "Chairman Khrushchev has said that consumption will stabilize after some increases during the next few years. I suggest that an estimate of 42 kilograms per caput (by 1975) may not be unrealistic."<sup>1/</sup>

20. Assuming that by 1968 or 1970, per capita consumption amounts to 40 kgs., total requirements in each of these years would be 9.9 million metric tons and 10.3 million metric tons, respectively. If by 1970, the 42 kg. level had been achieved, total requirements would amount to 10.8 million metric

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<sup>1/</sup> The Sugar Challenge, Dr. Albert Viton, Sugar y Azucar, October 1963.

tons. Given 5 million tons from Cuba, the balance of 5.0-5.5 million tons would come either from domestic output, or a small share may come from other importers, perhaps Poland and Czechoslovakia. Soviet Union beet production, barring unfavorable weather, has been around 7 million tons and assuming that it does not continue to rise as it has in the past, 2 to 2.5 million tons of sugar would be available for export compared with an export figure of 900-950 thousand in 1961 and 1962. In addition, other Eastern European sugar producers would also have to find an outlet for their sugar, which they had formerly sent to the Soviet Union.

21. There has been an increase in consumption of sugar in Mainland China too. At the present time it may be at roughly 3 kgs. per person, in total 2.3-2.5 million metric tons. (This per capita is approximately one half the per capita intake of sugar in India.) If an increase of 1 kg. per person was achieved by 1970, it would result in an additional requirement of somewhere near one million metric tons.

22. For this trading area as a group it does look as if they will have ample supplies of sugar by 1970 provided there is some recovery in the Cuban sugar industry within the next five years. This conclusion is based also on the assumption that current average domestic production levels are maintained throughout Eastern Europe. For the Soviet Union this is a conservative estimate. According to their seven-year plan (1959-1965) further increases in beet production and in processing capacity are expected.<sup>1/</sup> Moreover, these increases will probably be at relatively low costs.

23. If there should be a burst of production within the Soviet Union and Cuba, the most likely outcome would be increased export availabilities at relatively attractive prices to other areas. Even without such a situation there is always the possibility that the Soviet Union will export rather than increase domestic consumption. This uncertainty is ever present in the world sugar situation, not only today but also in the foreseeable future.

(c) Demand

24. Until very recent years, the expansion in world consumption of sugar lagged a little behind growth in output. This trend was abruptly halted beginning in 1961/62 due to a reduction in supplies. It was not until the following season (1962/63) that consumption showed its first reduction in years. And actually this has proved temporary as current intake (1963/64) is estimated to be 2.2% above the previous year and slightly above the 1961/62 level. This is, however, somewhat below the longer term rate of growth in demand of roughly 3% yearly.

25. "The price elasticity of demand for sugar is very low in the high consumption countries. Almost 70% of the consumption of around 40 million tons outside the Communist Area is concentrated in countries in which a 20% increase in consumer prices is associated, on the average, with a decrease in consumption

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<sup>1/</sup> Sugar: A Review of the Industry in the U.S.S.R., D. A. Music, FAO Monthly Bulletin of Agricultural Economics and Statistics, Vol. 11, No. 9, September 1962.

of only 4-6%. Less than 25% of world consumption has a price elasticity of unity or higher; in other words, where a 10% increase in the consumer price can be expected to reduce demand by 10% or more. In many countries, moreover, the negative effect of a price increase will be offset, at least to a substantial extent, by rising income.<sup>1/</sup> It should be remembered, however, that consumer prices for sugar are controlled in a great many areas of the world.

26. Given all these factors, it is likely that, over the medium-term, price changes are unlikely to affect greatly the long-run trend in consumption growth of 3% per annum.

### III. Future Prospects

27. Over the longer term a great many of the sugar producing countries are planning for further expansion. For example, in Mexico two alternative plans are being considered, the lower estimate of the two calls for an increase in available exports of sugar of 60% by 1970 compared with the present level. In Brazil, factory sugar production capacity is to be increased to 5.7 million tons in 1970/71 compared with current output of roughly 3.4 million tons and exports are expected to increase to 900 thousand tons compared with the 1960/62 average of just under 700 thousand tons. Elsewhere throughout Latin America similar plans are under way as in Colombia and Argentina.

28. Throughout Africa many expansion plans are in operation such as in the United Arab Republic, the East Africa region, and in South Africa. In other countries sugar is being grown for the first time or the refining industry is being developed as in Ghana, Nigeria, Morocco and the Sudan.

29. Also, throughout Asia increased sugar production is likely particularly in India. One of the great unknowns for the future is the position of Indonesia, formerly one of the world's largest producing regions.

30. In addition to the countries mentioned there are innumerable other countries, both large and small, where growth in the sugar industry will be taking place over the next five to 10 years.

31. A resumption of the long-term rate of growth in consumption, outside the Eastern Trading Area, of approximately 3% yearly may be expected.

32. A return to the acute surplus situation when world prices were 3 cents per lb. and below is somewhat difficult to envisage from the present situation, except in the odd year when a temporary surplus may exist because of a bumper crop due to exceptionally good weather conditions throughout the world.

33. The needed investment in the sugar industry to enable it to meet the long-run growth in demand will probably be forthcoming at prices under 5 cents per lb. A price of 4 to 4.5 cents per lb. would probably keep supply and demand in fairly reasonable long-run balance by the early 1970's.

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<sup>1/</sup> The Sugar Challenge, Dr. Albert Viton, Sugar y Azucar, October 1963.

34. In the meantime, that is for the current season and for 1964/65, the price may be somewhere around the 6-7-cent level.

35. These price forecasts must be considered as guess-estimates based on our best judgment of how the future may develop. However, the uncertainties of the Eastern Trading Area's sugar policy (the future size of the Cuban crop and the Soviet Union buying and/or selling policy) must always be kept in mind as it can upset completely any price forecast.

Economic Department  
F. White

Table I: WORLD SUGAR PRICES

(U.S. cents per lb. raw value)

	(1) World (f.a.s. Cuban port basis)	(2) United States (c.i.f. N.Y. ex-duty)	(3) United Kingdom (c.i.f. negotiated price)
1950	5.0	5.4	3.8
1951	5.7	5.6	4.0
1952	4.2	5.8	4.8
1953	3.4	5.8	5.3
1954	3.3	5.6	5.1
1955	3.2	5.5	5.1
1956	3.5	5.6	5.1
1957	5.2	5.8	5.3
1958	3.5	5.8	5.5
1959	2.97	5.7	5.6
1960	3.1	5.8	5.5
1961	2.7	5.7	5.6
1962	2.8	5.8	5.7
1963	8.3	7.6	5.8
1964			
Jan.	10.5	8.8	5.8
Feb.	9.1	7.5	5.8

- (1) From 1950 to 1960, No. 4 world contract price N.Y.; from 1961 world price calculated by International Sugar Council by combining N.Y. No. 8 spot price and London Daily price.
- (2) From 1950 to 1960, No. 6 (Domestic) contract; from 1961, contract No. 7.
- (3) In accordance with the negotiated Commonwealth Agreement price for the entire calendar year.

Source: International Sugar Council and IBRD Statistics Division.

Table II: U.S. SUGAR QUOTA PREMIUMS

(U.S. cents per lb.)

	Price for shipment to		Quota Premium
	(1) United States	(2) World Market	
1948	4.64	4.23	+0.41
1949	4.95	4.16	+0.79
1950	5.09	4.98	+0.11
1951	5.07	5.67	-0.60
1952	5.35	4.17	+1.18
1953	5.43	3.41	+2.02
1954	5.21	3.26	+1.95
1955	5.00	3.24	+1.76
1956	5.10	3.48	+1.62
1957	5.30	5.16	+0.14
1958	5.41	3.50	+1.91
1959	5.35	2.97	+2.38
1960	5.35	3.14	+2.21
1961	5.36	2.91	+2.45
1962	5.56	2.98	+2.58
1963	7.03	8.50	-1.47

(1) Cuban equivalent by subtracting freight, insurance and duty from raw sugar price New York basis spot Contract No. 6 until 1961, when Contract No. 7 was used.

(2) Spot price No. 4 World Contract f.a.s. Cuba until 1961 when No. 8 World Contract f.o.b. Caribbean ports was used.

Source: Various issues of Sugar Reports, U.S. Department of Agriculture.