

## MISCONCEPTIONS

I refer to the Statement made by the International Food Policy Research Institute dated 31<sup>st</sup> May 2007 entitled “Reform Global Sugar: What do Changes in Sugar Policy mean for the Future?” by David Orden and write on behalf of ACP Sugar Industries traditionally exporting sugar for decades to the EU and US Markets to correct some of the misconceptions contained therein. As these could disorient sugar policy decisions of developing countries, I would be grateful if the comments, made below, could be shared with your audience

1. As expected by those conversant with international sugar trade, the claims that world prices will increase by 20% in the wake of the EU Sugar Regime Reform, has failed to materialise. The reality is that in spite of the significant reduction in the EU exports, world sugar prices have halved from the June 2006 level of some US\$17.50 cs/lb to the current level of US\$8.56 cs/lb (NY No 11) owing to the bearish structural sugar surplus of some 6.9 million tonnes and the weight of massively increasing sugar exports of Brazil related to its dominant market position as the producer of 45% of the sugar traded worldwide.
2. As is generally well known by the sugar trading cognoscenti, no sugar industry in the world including the most efficient ones can sustain their long term viability on generally low and unstable world prices. An International Sugar Organisation (ISO) study released in November 2003 carried out among 100 exporting and importing countries showed that more than 76% of the 145 million tonnes of sugar produced then were consumed domestically. It also established that the average retail sugar price in the countries covered in the survey was \$610 per tonne i.e. more than the present net EU or US export sugar prices and more than 3 times the current world price. These facts confirm the generally held view that most sugar industries in the world sustain their long term viability on principally high domestic prices. Domestic prices

on continental Africa are on average \$400 per tonne i.e. more than twice the present world price of sugar. In some of the regional markets in Southern and Northern Eastern Africa, domestic outlets offer a better return than those provided by the current preferential market access in the EU and the US. Any surplus is preferably exported to preferential markets instead of the generally bearish world market.

3. The market access provided by the EU to the ACP and LDC countries as well as the US to 38 developing countries under the TRQ has the advantage of providing predictable, stable and significantly higher prices than the generally depressed world prices. The ACP and LDC countries as well as the International Sugar Trade Coalition representing 16 developing countries, including Zimbabwe and Malawi, exporting 42% of the sugar under the US TRQ are respectively lobbying the EU and the US to maintain the benefits and value of their traditional market access.
4. The sine qua non condition for sugar industries in developing countries to produce sugar 'efficiently and massively' and to adopt a 'large scale, high-tech' model of production is their ability to attract significant investments, most probably foreign. A recent study by the International Sugar Organisation (ISO) shows that FDI stems principally from regional sugar groups as in the case of LDC countries in Africa ( Illovo/BSC, Tongaat-Hulett) or Asia ( Thai Group) or from the big international players in the world sugar sector ( Tereos, Cargill, Dreyfus). These investments which inter alia help generate employment, assure sustainable rural development and alleviate poverty are attractive to investors only by virtue of the remunerative value of domestic and regional markets or the preferential market access in the EU, US or other profitable outlets. The absence of high prices in domestic and targeted regional or export markets would dry up all foreign direct investment into the sugar sector in developing countries. Investments in ethanol plants in Brazil to target the domestic market or the energy deficient US market follow the same logic. To suggest dismantling the price structure

in these remunerative markets would undermine the interests of the developing countries IFPRI intends to help.

5. There are abundant studies that have demonstrated that Brazil, which is so richly endowed with land resources, can both increase its sugar and ethanol production without having to divert the use of sugar cane from sugar to ethanol. There are more than 100 new sugar and ethanol plants being built in Brazil between now and 2013. This is in addition to some 40 new plants that have started production in the country in the past two years. Brazil's 2007/08 crop is expected to increase by 13% to attain a staggering 420 million tonnes of cane representing some 50 million tonnes more than last year. In 2006/07 Brazil is forecast to produce a record 32.57 million tonnes of sugar and 18.6 billion litres of ethanol.
6. It is equally unfounded to aver that lower domestic prices would lead to lower retail prices and benefit consumers. The recent EU sugar price reduction has not resulted in a reduction in EU sugar retail prices in Europe. Far from benefiting consumers, reduction in EU and US prices will enrich the multi-nationals who control the distribution trade or the industrial users in these markets.
7. The best way to help the poor sugar cane farmers in developing countries is to maintain the value of the market access in developed markets such as the EU and the US and certainly not dismantle the sugar regimes in place nor hold questionable hopes of assuring their long term viability through elusive higher world sugar market prices, the more so as the world market is essentially a residual market whose prices are generally below the cost of production of most efficient sugar producers in the world.

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