Commodity Trading and the Lomé Negotiations: The Case of the Caribbean Sugar Industry

Kusha Haraksingh

In the long view the fortunes of the sugar industry in the Anglophone Caribbean are distinguished by an initial period of remarkable prosperity in the 17th and 18th centuries, a so-called golden age, and then by a relatively extended phase of more or less uninterrupted decline. Indeed, given the persistent allusions to decline in the scholarly literature it might come as a surprise to some that the industry has managed to survive at all. What is less surprising is that in both the upward and downward swings, the more influential factors have revolved less around labor or capital than around plain market conditions. Thus, adherence to mercantilist principles in the earlier period probably provided a sounder basis for the accumulation of wealth than slave labor, and the loss of the American colonies was arguably more damaging to the economy than the abolition of the slave trade. Certainly, the equalization of sugar duties in 1846 proved to be more of a catastrophe for the sugar industry than the emancipation of the slaves in the previous decade. Similarly, just when the industry appeared to have arrived at a more secure footing towards the end of the 19th century, following the introduction of new technology and the consolidation of holdings, a threat to its viability came from the bounties paid to European beet producers. The lesson to be drawn from all of this is that trading arrangements were the more certain predictor of commercial success than any other factor; it is therefore understandable that this should be the attitude with which Caribbean sugar should approach the current negotiations on international trade.

The inclusion of agriculture in the Uruguay Round of trade talks, and the events leading up to the establishment of the WTO in Marrakesh on 15th April 1994, created a situation that was especially troubling for the small sugar producing countries of the Caribbean, who were only too acutely conscious of their basic position of disadvantage in a regime of 'open trade.' Sugar producers were more aware than most that there was no such thing as free trade, that what really counted were the arrangements for the exchange of goods, and that one’s prospects were determined really by the extent to which one was able to secure the edge of advantage in the delineation of those arrangements. However, in the debate on the merits of the LPG process - liberalization, globalization, privatization - control of the discourse itself had been surrendered. A new orthodoxy had emerged, at once arrogant and uncompromising, and which considered every argument opposed to rampant free trade as a mark of an unhealthy attachment to a more primordial world. The rub was that the more developed countries who already had the edge of advantage, because of greater land area, or more advanced infrastructure, or a head start in the application of modern business methods, were quite prepared to promote their own moral conviction that others not so endowed were simply inefficient producers whose industries accordingly deserved to die. This position was aimed directly at the special arrangements for sugar, which the Caribbean producers had with the European and the United States markets.
The European preferences can be traced back to the founding of the European Community in 1958 and the undertaking of the six original members to provide financial assistance to their then colonies. By the 1960s many of the latter had become independent countries, and by the 1970s they would form part of a much larger body known as the African, Caribbean and Pacific (ACP) group of countries. In 1975 the first convention of Lomé was signed between the EC and the ACP, to replace earlier cooperation agreements. The convention was subsequently renewed three times, culminating in Lomé IV in 1989 between an enlarged ACP group of 69 members and 12 EC states. Lomé IV extended the life of the agreement to ten years and the proposals now emanating from Europe with respect to its renegotiation pose enormous challenges for Caribbean sugar plantations. These arise especially from the notions of differentiation and reciprocity.

For sugar producers in the anglophone Caribbean, the more important arrangement is found in the Sugar Protocol attached to the Lomé convention. The Protocol replaced the Commonwealth Sugar Agreement, which regulated the sugar trade between the United Kingdom and its Commonwealth partners, and was instituted following the accession of the UK to the EC in 1974. The Protocol effectively transferred the UK commitment to the Commonwealth into an EC commitment to the ACP. It set out the EC’s undertaking to import levy free 1.3 million tons of cane sugar from ACP countries which undertake to supply it, at a guaranteed price, to be the subject of annual negotiations, within the price range obtaining in the EC. The Protocol is stated to be for ‘an indefinite period’ (article 1 of the ACP/EU Sugar Protocol), and further provides that it stands on its own feet, and that it is not lawfully dependent on the existence of the Lomé convention. This is covered in Article 8(2) of the Protocol, which states that in the event of the Convention ceasing to be operative, ‘the sugar supplying states … shall adopt the appropriate institutional provisions to ensure the continued application of the provisions of the Protocol…”

In 1986, at the time of the accession of Portugal and Spain to the EU, the ACP formulated a request to supply the raw sugar deficit of the Portuguese refineries. The response from the European Commission introduced the notion of maximum supply needs (MSN) and of a ‘hierarchy of preference’in the following order: domestic (DOM and EU beet raws) suppliers, ACP Protocol suppliers, other ACP quantities, third country (MFN) suppliers, and finally additional Special Preferential Sugar (SPS). Following the 1995 reform of the EU sugar regime, the EU was empowered to negotiate with the ACP and India on the importation of SPS, and agreement was reached on 1st July 1995. The SPS agreement includes a minimum delivered price, equivalent to approximately 85 percent of the ACP price for Protocol sugar. The quantities of SPS for each marketing year (July to June) are determined by reference to a forecast supply balance (bilan) provisionally agreed in May and finalized the following February. However, unlike the case with Protocol sugar, SPS is for a limited duration. It is provided in the agreement, though, that before 1 January 2001, the parties shall open discussions on its possible continuation.

The significance of these arrangements for the sugar industries of the Caribbean becomes apparent in the light of existing domestic and international conditions. To begin with, the comparatively small size of many of the countries mean that production is restrained by the limits imposed by the availability of arable land, so that the full advantage of economies of scale cannot be exploited. In addition, the small populations of the territories result in a comparatively restricted domestic market which by itself could not sustain the industry. Thus an external market is required, but the so-called world market is of little assistance
in this regard. This is because sugar provides an extreme case of the problems of commodity markets; the quoted world price is low relative to production costs; it reflects the distortions in the market, and the subsidies which the developed countries pay to their own producers and which therefore permit them to do business on the world market at prices significantly lower than their cost of production. This price is also extremely volatile; indeed, the sugar price is the most variable of any internationally traded agricultural commodity. In addition, the cultivation of sugar, unlike a crop like wheat or corn which is attuned to an annual rotational cycle, involves heavy fixed costs and a consequent inability on the part of the producer to ride with equanimity the boom and the bust of the world market.

In this situation the guarantees of access and price contained in the Sugar Protocol, and since 1995 in the SPS arrangement, provide the Caribbean producers with a more predictable situation with which to counter the wild swings of the world market. The producers are thus able to plan for the future, to consider improvements in their processes, and to secure credit for investment and for expenditure on capital requirements. The initiatives undertaken in this regard are outlined periodically in a memorandum to the EU on the economic factors to be taken into account when setting the range within which ACP prices are to be negotiated. The latest memorandum argues that there are numerous examples within the ACP industries of the use of Protocol earnings to foster greater efficiency and to ensure a secure future for the industries and the communities that they support. As is the case with industries based on plantation agriculture, however, many innovations either at the growing or processing stage require a long gestation period and a period of stability for their full flowering. When this is considered, it is safe to conclude that in present circumstances, without the safety net of the Protocol, a large part of the Caribbean sugar industry simply would not survive.

In the trade talks at the Uruguay Round, these points did not have much persuasive power. The religion of the day was free trade, and countries whose sugar industries could not stomach that creed were advised to find something else to do. However, the experience of Caribbean producers had long convinced them, and this was not for want of trying, that sugar was the most efficient crop that they could grow. It was adapted to the agronomic conditions and weather pattern of the region; it was sustainable and generally kind to the environment. In some places in the Caribbean it had been cultivated continuously on the same plot for more than two centuries, and was still being produced, a record which could not be matched by any other crop. In addition, the benefits to the region in terms of the provision of employment and foreign exchange earnings could not be achieved by switching over to any other commodity, and certainly not to cut flowers, which for a time was the flavor of the month of advisors from the international financial institutions.

All the same the attack on the sugar preferences first emerged tangentially, and not frontally, and it was directed at bananas, not sugar. Lomé also provided special access in Europe for Caribbean banana producers but this was on a less secure footing than that contained in the Sugar Protocol. From a regional point of view, this attack pitted the Central American banana industry against that of the much smaller Caribbean countries, and some sugar producers, and some policy makers too, saw this as a foretaste of things to come. While the banana issue was being ventilated, sugar producers were presented with an uncomfortable dilemma: not to appear to be ditching their banana colleagues, but at the same time ensuring that sugar was regarded as a separate issue. To this end, every opportunity was taken to insist that the Sugar
Protocol was merely attached to and not integral to Lomé, that it rested really on an obligation arising from the UK Treaty of Accession to the EC, and that as a consequence it was not subject to unilateral abrogation. In the event, the decision of the Banana Panel appeared to mollify some of sugar’s concerns, but then the Appeal ruling seemed to point the way for a possible challenge. A similar swing was evident in documentation produced by the European Commission. In October 1997 it released Guidelines for the negotiation of new cooperation agreements with the ACP in which it claimed that it would not be possible to maintain the preferences under the product protocols, including sugar, unless they were covered by an exception based on Article 9 of the WTO. In January 1998, however, in a draft Communication to the European Council containing its recommendation for a Council decision authorizing the Commission to negotiate a ‘development partnership agreement’ with the ACP, it affirmed that the Sugar Protocol, “which enjoys a special status, will be maintained beyond the five year period” ending in 2005. In these circumstances, it is just as well that the case for sugar rests on accrued treaty rights, which ought not to be susceptible to unilateral abrogation. This position is further cemented by reference to the fact when the final agreement on the Sugar Protocol was achieved in 1975, it was at a time when the sugar price offered by the then EEC and accepted by the suppliers was substantially lower than world market prices, that the ACP countries accepted the lower prices, and that they have continued to be reliable suppliers over the years.

At the beginning of 1991, the real danger to the sugar arrangements seemed to come from the pressure for internal reform in the European Community of its own agricultural program. In the GATT talks, agriculture was a central issue; there was a determination to do something about distortions in agricultural trade, and since the US and the EC both had major programs of subsidy, it followed that a prerequisite for a successful conclusion to GATT was an agreement between them on farm trade. This went through many twists and turns, which Caribbean sugar producers followed in the manner of a spider caught in a web: impotent and apprehensive, unsure of the outcome but certain that whatever was decided would have far reaching implications.

The problem, of course, was how to intervene in the debate, and what to use as ammunition to win one’s points. The days of West Indian planters buying seats in the Parliament at Westminster were long gone, and it was not now possible, as had been the case in the past, to summon up a perceived threat to the Panama Canal as a device to argue for stability and economic health in the Caribbean region. Playing on the colonial past and appealing to liberal sentiment in Europe, which had once worked, could deliver no results now, not in a new Europe comprised of nations with little colonial baggage and more inclined to look towards Eastern Europe than across the ocean. Downright supplication and begging, which had also once worked, would hardly help, though it was clear that the Germans especially, who had always harbored misgivings about the efficacy of special trading arrangements, were inclined to regard straight aid as a more useful contribution to the welfare of developing nations. However, with fresh demands arising from unification, they could hardly be counted upon to respond to Caribbean blandishments.

Driven by the GATT negotiations, the EC farm Ministers announced in May 1992 that they had reached agreement on the Community’s Common Agricultural Program. This dated back to 1962 and was based on a provision in the Treaty of Rome of 1957; its purpose was to ensure a standard of living in agriculture that was comparable to that in other sectors of the economy. The centerpiece of the 1992 ministerial agreement was a commitment to cut cereal support prices and to compensate
cereal farmers with direct income subsidy. Six months later, in Washington, the so-called Blair House Agreement was announced in which the US and the EC indicated that they had resolved their differences on the main elements concerning agriculture in GATT.

When the time came, the cuts on cereal and other farm support in Europe had been sufficient to meet the obligations imposed on European agriculture by GATT, so that sugar emerged from the reform process relatively unscathed. More to the point, though, the preferential quotas to the EC, and indeed to the US, were pronounced as GATT friendly. Nevertheless, without entering into the complications of the system, it is anticipated that in the medium term, pressure from the full effect of the reforms could lead to a reduction in the guaranteed price for ACP sugar producers. There is some argument about the likely level of reduction and when it will begin to bite, but once again Caribbean producers are put in the position of having to respond to developments over which they had little control.

While all this was going on, the situation with respect to the US preferential market was generating its own anxieties, and in this case, it seemed to be a matter of having to vault one hurdle after the next. The GATT agenda was always present, but in addition there were challenges emanating from negotiations relating to Mexico's accession to NAFTA, from attacks on the US sugar program, and from positions relating to the US Farm Bill. To meet these challenges, Caribbean sugar producers made common cause with Central American producers in the Caribbean Basin Initiative (CBI) group, lobbied hard in Washington, and worked with their diplomatic officials to make their case heard. There were formidable opponents on the other side, but also domestic cane producers in the US who could be counted on as allies, especially in relation to the continuing challenge from the Mexican industry. Both Caribbean and US domestic producers are fearful that the sugar provisions of NAFTA would result in a large influx of Mexican sugar to the US. From the Caribbean point of view, Mexico seemed to be angling for a position that would allow it to take over the entire US quota. For a while it seemed that these fears would be realized then, at the very last minute in November 1993, a 'side letter' was signed between the US and Mexico, the aim of which was to prevent Mexico from attaining the status of a 'net surplus producer' through substitution of cane sugar by corn syrup in the soft drink industry. There was much relief at this turn of events, but by 1996 Mexico had indeed succeeded in attaining the status of a net surplus producer, which entitled it to a 25,000-ton quota to the US, as opposed to its previous quota of 7,258 tons. And over the last two years, Mexico has raised questions about the legality, indeed even about the existence, of the side letter.

A similar conjunction of interests between Caribbean producers and US cane growers was present in relation to positions taken on the US sugar program and the Freedom to Farm Bill. The whole experience indicated to Caribbean sugar producers, though, how their interests could be jeopardized by developments that at first sight might seem remote from their normal concerns. Thus, the voting patterns in the House of Representatives, where the sugar program escaped by nine votes, reflected the declining influence of the rural areas, and also the growing strength of calls to eliminate government programs. The involvement of environmental and consumer groups was more pronounced than it has ever been. The former in particular made the sugar vote one of the key votes on which to assign a grade to members of Congress, in an effort to label them pro or anti-environment. The cleaning up of the Everglades emerged as a large and continuing issue, and millions of dollars were spent against the sugar program by refiners, candy manufacturers and soft drink bottlers. Some of their propaganda was, and
continues to be hysterical; it is still alleged in some quarters, for example, that the US sugar program not only promotes inefficiency and the misallocation of resources in the Caribbean and Central America but also that it makes millionaires in the region.

It is the case that external attacks on the Caribbean sugar industry are mirrored in some local attitudes. The legacy of slavery and indenture is discernible in some of these approaches, especially in those which are prone to regard the industry as a dinosaur whose time has passed. This perspective draws some ill-founded support from exaggerated references to the likelihood of the sweeteners industry displacing the demand for cane sugar. It is also buttressed by current demands from the industry for state support. Often, this serves to promote the view that the industry is unprofitable, and can survive only at the expense of the public treasury. The matter is, however, decidedly more complicated than a straight profit and loss issue. In Trinidad & Tobago, for example, where government policy requires the state-owned sugar company to achieve viability, the company has no control over the cost of its major raw material—the canes which it purchases from private farmers— or the price at which it sells its final product. These are fixed by the government, which also sets the limit for wage negotiations.

The real problem for Caribbean sugar is to estimate how much the accrued treaty rights which underpin its access to Europe, its participation in the Sugar Protocol, widely acknowledged as a model trade instrument providing benefits for all parties, and its undoubted contribution to the social and economic fabric of the region, will count in the swirling eddies of the negotiation process. Caribbean producers have been accustomed to deal with the EU from a position of ACP solidarity, but the continued emphasis on differentiation and regionalization threatens to introduce unfamiliar strains. Hardheaded analysis on a product by product basis, as well as exploration of the relative benefits the three scenarios painted by the European Commission—the establishment of FTAs, GSP type preferences for countries not wishing to participate in an FTA, and enhanced Lomé type arrangements for some countries—may alter the balance of argument. So too might the requirements of the political dimension being enunciated in the Commission’s Guidelines, namely, ‘respect for human rights, democratic principles and the rule of law, and good governance.’ These have yet to be spelt out, and it is anybody’s guess where they will lead. Also to be taken into account are the conditionalities precedent to full participation in the Free Trade Area of the Americas, scheduled to come into existence in 2005. Indeed, it is felt in some quarters that the negotiating timetable now being proposed by the Commission is informed by developments in the Americas. How sugar will fare against this background is not easy to predict.
REFERENCES


