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The World Sugar Market: Opportunities for Soviet Influence

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An Intelligence Assessment

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GI 83-10235
SOV 83-10178
October 1983

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An Intelligence Assessment

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This paper was prepared by
Economics Division, Office of Global Issues,
and Soviet Economy Division,
Office of Soviet Analysis.

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Comments and queries are welcome and may be directed to the Chief, Commodity Markets Branch, OGI,

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Key Judgments

Information available as of 30 September 1983 was used in this report.

As a result of chronic overproduction, a glut of sugar exists on the world market and prices are depressed. This situation is likely to persist for quite some time, putting added financial pressure on LDC exporters.

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Poor sugar harvests in the USSR during the past few years have thrust Moscow into the forefront of international sugar trade. In 1982, the USSR imported more than 7 million tons of raw and refined sugar, about 25 percent of total world sugar trade. Current purchasing behavior suggests that the USSR will remain a major sugar importer in 1983. Beyond that, we estimate that Soviet sugar production will consistently fall short of plan through the 1980s. Although Cuba will remain the USSR's dominant sugar supplier, Moscow may need to buy several million tons annually from other suppliers during the next few years. This requirement could be pared back later in the decade if Moscow succeeds in reviving its stagnating sugar sector.

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The ability to move among suppliers enables Moscow to use its purchases to cultivate political good will and influence among sugar-producing LDCs. Although the majority of Soviet purchases are based on supply and demand conditions, political considerations are factored into Soviet calculations. During the past eight years, Soviet sugar purchases from Peru, for example, occurred in only two years—1975 and 1980. In both of those years, there was a change in Peru's government. The one recent Soviet sugar purchase from Zimbabwe occurred in 1980, the first year of independence. As for other examples, the only Soviet sugar purchase from Guyana occurred in 1975, the same year that Moscow's first resident diplomatic mission arrived in that country. The Soviets first purchased Nicaraguan sugar in 1980, just after the current leftist regime came to power. Whether the Soviet Union pursues such a course in the future will depend on the perceived benefits; relationships with existing suppliers, particularly Cuba; and hard currency constraints.

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Although Soviet moves to apply the sugar lever are likely to improve only marginally Soviet influence overall in the Third World, in individual cases the political gains could be great. Soviet officials know that the prospect of Soviet purchases looms large to sellers in a glutted market, particularly for financially strapped LDCs. Moscow's targets of opportunity may include:

- Supporting new leftist regimes, such as Nicaragua, and existing Soviet clients, such as Mozambique.
- Making inroads in countries, like Guyana, with surplus sugar and faltering economies.
- Influencing countries squarely in the US camp, but with whom Moscow would like better ties, such as Thailand.
- Nudging nonaligned states, such as India, Argentina, and Peru, in Moscow's direction.

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From a US perspective, the highly politicized nature of the world sugar market has further complicated a number of broader issues, including North-South relations, global trade barriers, and the LDC debt problem. Having imposed a sugar import quota in May 1982, the United States can expect to be buffeted from all sides over its domestic and international sugar policies as they relate to these issues. Moreover, if the Soviets play their sugar card adroitly, Moscow will be able to have an impact on at least some of these areas.

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Table 1
Selected Non-Communist Countries: Sugar Policies

Exporters	Policy	Problems	Action
Brazil	To expand and diversify export markets; to return export industry to private sector by 1989.	Low export prices and rising production costs are squeezing producers; subsidies are becoming prohibitive; excess production, given depressed market demand.	Reducing subsidies; raising gasohol production with sugar as a feedstock.
European Community	To maintain sugar self-sufficiency and farmer incomes through domestic subsidies; to maintain exports and reduce sugar stocks.	High production costs coupled with low world prices are squeezing farmers' incomes; subsidies to farmers and costs of stockpiling are putting pressure on EC budget.	Moderating subsidy increases; working through the ISO to improve the sugar market; attempting to spread stockpiling costs to other exporters and importers.
India	To encourage domestic production and consumption through the use of subsidies under a policy called low cost and low prices; export policy unclear.	Overproduction, mounting surpluses, inadequate shipping capacity; state governments at odds with New Delhi's pricing policies.	Reduced payments to growers; other measures under consideration include a larger buffer stock, higher ISO export quota, improved shipping schedules, financial aid to sugar mills.
Philippines	To increase production through yield improvements; to raise industry earnings; to diversify export markets away from reliance on the United States.	Long-term export contracts at above-market prices expire in 1984, putting industry profitability in jeopardy; extended drought.	Encouraging improved cropping practices; increasing minimum support prices to growers.
Thailand	To encourage increased sugar exports under a broad export diversification campaign.	Extended drought, reduced cane acreage, high fertilizer prices, inadequate prices to cane growers.	Bangkok plans to raise sugarcane prices and to persuade growers to maintain acreage.
Indonesia	To become self-sufficient by increasing production and refining capabilities.	Lack of producer incentives because of high costs and low world prices.	Raising government subsidies to growers.
Japan	Protection of domestic sugar producers from import competition through use of import duties and surcharges; luxury tax on consumption.	Declining demand resulting from more health-conscious consumers and competition from substitute sweeteners; low profitability and serious overcapacity in the refining industry.	Removal of protective measures under a 1978 law that regulated market shares and guaranteed refiners against losses.
Mexico	To become self-sufficient by 1987.	Antiquated mills, poor maintenance, lack of spare parts, poor living conditions for cane growers and mill workers; low sugar prices (10 cents per pound) encourage consumption.	Decree by President de la Madrid restructures the industry around new central organization called Azucar, S. A.; industry demands that domestic price be raised to 31 to 34 cents per pound.
Nigeria	To limit all imports, including sugar.	Rising sugar imports depleting scarce foreign currency reserves.	Doubling of import tariffs and institution of limited sugar import licenses; large-scale projects to increase domestic production.

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The World Sugar Market: Opportunities for Soviet Influence

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Introduction

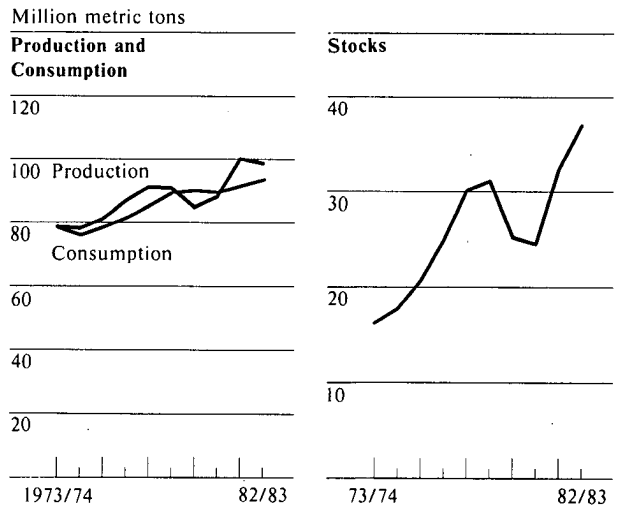
As the world's largest sugar buyer, the Soviet Union is in a position to use its sugar purchases as a foreign policy tool. Whereas sugar consumption in the United States is falling dramatically, Soviet sugar consumption is large and growing, and domestic production is erratic. A combination of poor sugar harvests in both the USSR and Cuba during some of the past few years has thrust Moscow into the forefront of international sugar trade. Thus, to meet domestic needs, the USSR imported more than 7 million tons of raw and refined sugar in calendar year 1982, about double the level of seven years ago. Of this amount, Cuba supplied about 4 million tons.

While Soviet consumption has risen rapidly, demand for sugar in the industrial countries has stagnated or declined. As a result, a glut of sugar exists on the world market and prices are depressed. For the debt-troubled less developed countries (LDCs) who are also sugar exporters, sugar sales are important to their economies. This situation provides Moscow an opportunity to cultivate political good will and influence among certain LDCs while satisfying domestic sugar requirements at a relatively low economic cost.

World Sugar Outlook: Chronic Overproduction

With the exception of a handful of years when major crop failures occurred, world sugar production has consistently outpaced consumption since World War II. During the past 10 years consumption has exceeded production only twice—in 1979 and 1980 (see figure 1). Our review of national policies and reporting by agricultural attaches indicates that the production/consumption gap has also been widened by production subsidies designed to bolster farmers' incomes and minimize sugar imports, as well as attempts by exporters to maintain sugar earnings in the face of falling prices (see table 1). As a result, output has failed to respond as effectively to surpluses and low prices as it has to shortages and high prices (see inset, "World Sugar Trade").

Figure 1
World Sugar



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Last year, sugar production reached a record level. Between 1980 and 1982 world sugar output rose nearly 19 percent, topping 100 million tons for the first time.[1] Crops benefited from generally good weather and expanded area, especially in the European Community (EC) where sugarbeet production increased 16 percent. Several major cane-producing countries that had poor crops in 1980, including India, Thailand, and Cuba, also managed to boost output to trend levels. World sugar consumption, on the other hand, rose only 5 percent, despite the fall in world prices. In the United States, sugar consumption declined about 9 percent; consumption in the EC declined about 4 percent.

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[1] See tabular appendix for detailed world sugar statistics.

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World Sugar Trade

Most sugar is consumed in protected or restricted domestic markets of sugar-producing countries. Only about 30 percent of production enters world trade. Almost a third of the sugar traded is sold under special arrangements involving preferential prices. This includes trade among Communist countries and duty-free exports to the European Community by the African, Caribbean, and Pacific producers under the Lome Convention. In addition, some sales are negotiated on the basis of long-term contracts. Unlike other commodities, such as coffee or cocoa, only a relatively small share of world sugar production—less than 15 percent—is purchased on the free market at the world price.

The thinness of the free market tends to aggravate sudden price swings resulting from shortages or surpluses. Output does not respond as rapidly to surpluses and low prices as it does to shortages and high prices, however, because:

- *Sugarcane will produce for a number of years before replanting is necessary.*
- *It is expensive to shift from cane, which accounts for almost two-thirds of world sugar production, to other crops.*
- *Factories built to refine sugar cannot be used for other purposes.*
- *In many beet-producing countries, production adjustments are inhibited by government protectionist policies.*

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Attempts to reduce price fluctuations have led to four international sugar agreements, the most recent in 1977. The agreement established export quotas and a system of reserve stocks designed to hold prices within a range currently set at 13 to 23 cents per pound.

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None of the agreements has been successful in limiting the world price to the target range. During the first two years of the current agreement, prices averaged well below the bottom of the then-agreed range. In late 1979, supply prospects dimmed as a result of a coincidence of bad weather, crop disease, and planned reductions in acreage. The market apparently was not convinced that reserve special stocks were in place. Large Soviet purchases through West European sugar brokers, together with speculation, helped send prices soaring to more than twice the upper limit of the price range. Before the end of 1980, however, the price was headed downward, mainly because of favorable production prospects; by 1981 the price had fallen below the floor price.

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This year's production/consumption picture is likely to show little change. The US Department of Agriculture estimates world sugar production for crop year (September-August) 1982/83 at nearly 99 million tons. A record Brazilian crop and near-record production in India have largely offset small losses elsewhere. World sugar consumption in 1982-83 is expected to grow by only 2 percent, not enough to bring the market into balance. Consumption gains in the LDCs are being offset by stagnating consumption in the key markets—the United States, Western Europe, Canada, and Japan (see figure 2).

The large imbalance between production and consumption during the last two years has led to record world sugar stocks. sugar stocks were expected to have risen by an additional 5 million tons by season's end (31 August 1983).

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World sugar prices, until recently, were limping along at roughly 6 cents per pound, the lowest level in 10 years and only 15 percent of their October 1980 high (see figure 3). Although prices were buoyed by news of poor Cuban and EC crop prospects, the large stock overhang effectively capped the price rebound. After reaching nearly 13 cents per pound in late May, sugar prices have settled back to the 9- to 11-cent range.

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Figure 2
Sugar Consumption

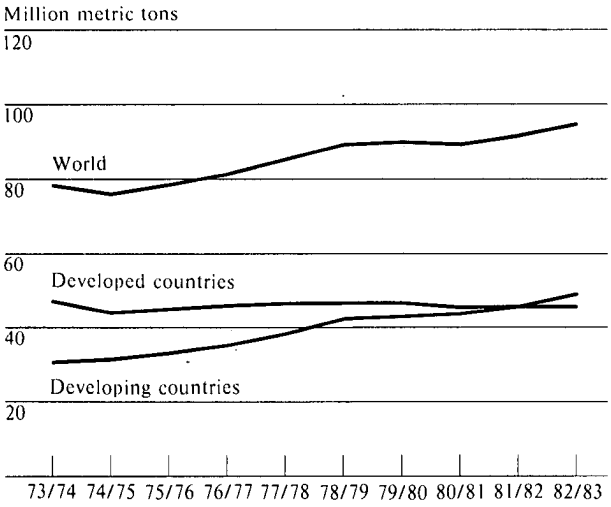

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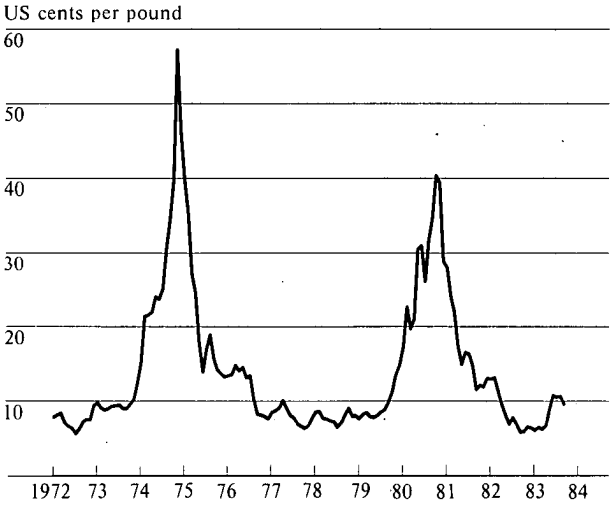
Figure 3
Sugar Prices[a]



[a] Monthly average through September 1983, world raw bulk prices.

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sugar consumption can be expected to grow only about 1.5 percent annually through 1990. In the *industrialized countries,* demand is stagnating or declining because of a number of factors, including changing tastes, increased interest in health foods, slower economic growth, and competition from substitute sweeteners. Sales of corn sweeteners, which received a major boost from the high sugar prices of 1980 as well as recent low corn prices, have hurt sugar sales. Most of the displacement has been in the United States, Japan, and Canada—all major sugar-importing countries. In the United States, corn sweeteners have taken about 40 percent of the sweetener market as the major cola companies continue to increase their use of high fructose corn syrup (HFCS) in soft drinks.

Only the *developing nations* are likely to show significant increases in sugar demand. Even this expectation could prove optimistic if LDCs continue to find themselves financially strapped. Sugar consumption in the LDCs passed that of the developed countries—which use large quantities of other sweeteners—for the first time in 1982, and there is no indication of a long-run slackening of demand, even in Central America and South America where annual per capita consumption approaches 45 kilograms. Industrial use of sugar in processed foods and beverages is the key to future consumption trends in these countries. In Mexico, Brazil, and Argentina, industrial sugar use now constitutes 35 to 50 percent of the market. If the rest of the Third World follows this pattern, LDC sugar use will grow considerably during the 1980s.

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The USSR's Role in the World Sugar Market

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Recent Developments

Recent trends in Soviet sugar production and consumption have made the USSR an increasingly important player in the world sugar market. Per capita sugar consumption in the USSR currently amounts to 44.5 kilograms, a figure equal to about 70 percent of

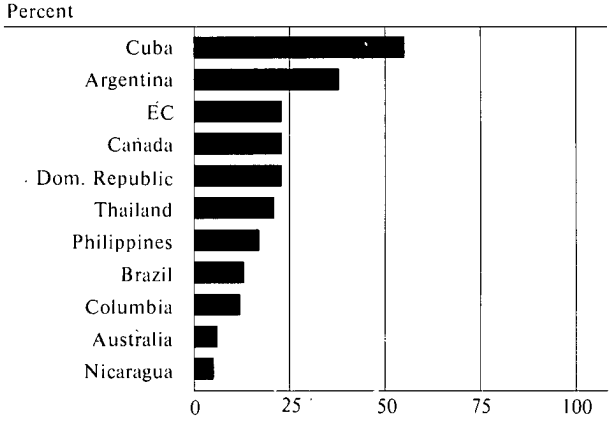
Table 2
USSR: Refined Sugar Production, Consumption, and Imports

Million metric tons

	Consumption	Production [a]	Imports	
			Cuba	Other
1975	10.4	7.4	2.8	0.3
1976	10.8	6.2	2.9	0.6
1977	11.0	8.2	3.3	1.1
1978	11.2	8.6	3.5	0.1
1979	11.3	7.3	3.4	0.2
1980	11.8	6.6	2.4	2.2
1981	11.9	5.9	2.9	2.0
1982	12.0	6.8	3.9	2.9
1983 [b]	12.3	7.3	3.2	2.2

[a] From domestic crops only.
[b] Estimated.

Figure 4
Selected Countries[a]: Share of Sugar Exports to the USSR, 1982



[a] Major sugar exporters to the USSR.

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US per capita consumption of sugar and other sweeteners. If limited to sugar alone, Soviet consumption exceeds that of the United States by about 30 percent. The steady growth in consumption for more than two decades reflects the importance of sugar in improving the quality of the Soviet diet. In an economy that has experienced substantial difficulty supplying quality foods, sugar has added variety and palatability to an otherwise dull diet.

Soviet sugar production has stagnated as a result of four consecutive poor sugar beet harvests (see table 2). Throughout this period, output averaged only 72 million tons a year, compared with targets of 97-98 million tons. In 1981 and 1982, sugar beet production totaled only 61 and 71 million tons, respectively. On the basis of analysis of weather conditions, we expect the 1983 crop to show considerable improvement—reaching 80-85 million tons—but again to fall short of the target of 96 million tons.

Moscow has responded to the poor crops by boosting imports. In 1982, Soviet purchases of raw and refined sugar reached a record 7.4 million tons, 40 percent higher than in 1981 and about double the 1976 level (see table 3). Havana continues to be the USSR's chief supplier, although its share of the Soviet import market has fallen from more than 90 percent in 1976 to less than 60 percent in 1982 (see figure 4).[2]

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The increase in Soviet sugar import needs has translated into a dramatic rise in Soviet purchases in the free market, from an annual average of more than 450,000 tons in 1975-79, to 2.3 million tons in 1980-82. Six countries—Thailand, Brazil, the Philippines, the Dominican Republic, Australia, and Argentina—and the EC accounted for about 95 percent of these imports. The EC alone provided more than 40 percent.

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Current purchasing behavior suggests that the USSR has remained a major sugar importer in 1983. Total deliveries from Cuba will reach roughly 3.5 million tons, a reduction of 700,000 tons from last year.

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[2] For most of the 1960s and early 1970s, Cuba was the USSR's only sugar supplier.

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Table 3
USSR: Raw Sugar Imports

Thousand metric tons

Country	1975	1976	1977	1978	1979	1980	1981	1982
Total [a]	**3,237**	**3,760**	**4,776**	**3,993**	**4,080**	**4,981**	**5,204**	**7,363**
Communist countries	2,965	3,231	3,816	3,800	3,766	2,972	3,127	4,408
Cuba	2,964	3,067	3,652	3,797	3,707	2,647	3,090	4,224
Free market	271	529	959	193	315	2,010	2,078	2,954
Argentina	0	0	0	12	0	13	150	127
Australia	51	0	0	0	0	0	0	157
Austria	0	0	0	0	0	36	14	50
Brazil	95	0	24	83	69	466	347	362
Canada	0	0	0	0	0	0	14	22
Colombia	0	0	0	0	0	11	12	36
Dominican Republic	0	0	0	46	0	33	14	194
European Community	0	298	249	40	235	856	873	1,263
El Salvador	0	0	0	0	0	26	0	0
Finland	0	0	0	0	0	19	62	4
Gabon	0	0	0	0	0	0	5	0
Guatemala	0	0	0	12	0	15	0	64
Guyana.	20	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	25
Nicaragua	0	0	0	0	0	13	0	5
Peru	105	0	0	0	0	24	0	0
Philippines	0	224	635	0	0	333	281	216
Swaziland	0	0	0	0	0	10	0	0
Thailand	0	0	0	0	11	140	266	429
United States	0	0	0	0	0	0	40	0
Zimbabwe	0	0	0	0	0	15	0	0
Other	0	7	51	0	0	0	0	0

[a] Because of rounding, data may not add to totals given.

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Purchases from remaining suppliers are likely to total about 2.5 million tons. the USSR is likely to purchase 1 million tons from the EC again this year. This level of trade, coupled with a 400,000-ton increase in purchases from Brazil, suggests that imports from other suppliers could decline considerably.

modest rates of increase in sugar consumption and the size and quality of its domestic sugar beet crops. We estimate that Soviet sugar production will consistently fall short of needs through the 1980s, resulting in a continuing demand for imports from both Cuba and the international market.

Looking Ahead

Beyond 1983, Soviet imports from countries other than Cuba will be determined by Moscow's plans for

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Soviet requirements for sugar, given the trend of 1-percent annual growth in per capita consumption, could be as high as 14 million tons by 1990. Long-range Soviet plans call for annual growth in per capita consumption of less than 0.5 percent. We believe, however, that the Andropov regime will not want to stem a trend that is seen as improving dietary quality when inexpensive foreign sources of sugar are readily available. Should Soviet planners decide to restrain growth in consumption to the plan level, the overall requirement would be reduced by about 1 million tons.

Projections of domestic sugar production are difficult to make, given the past variability in yields. Nonetheless, past trends provide some clues to the causes for flagging output of refined sugar from domestically grown beets. They suggest declining sugar content related to inefficient harvesting, transportation, storage, and processing.[3] If weather conditions are average and the Soviets revise cultural practices to raise yields and enhance the sugar content of beets, as well as provide better transportation and handling facilities, the slide in sugar production could be reversed in the latter 1980s.

Many of the improvements needed—specialized harvesting, cleaning, and handling equipment; adequately ventilated storage facilities; timely transportation; and upgraded processing plants—have been promised for 1981-85. During this period, Moscow plans to invest 1.5 billion rubles in the sugar industry, about 10 percent of total investment in food processing. In addition, beet farms are to receive substantially more fertilizer, pesticides, tractors, beet harvesting equipment, and other machinery. The planned investment, together with better management and favorable weather, could raise Soviet production of sugar from domestic beets to about 10 million tons in 1990. Without these changes, however, output at the end of the decade could be little changed from the levels of the last few years.

[3] Since 1975, the sugar content has fallen by an estimated 1.5 percentage points. Every percentage point drop in sugar content costs Moscow roughly 700,000 tons of sugar. If this trend were to continue, the Soviets could lose another 1.1 million tons of sugar by 1990. Meanwhile, 15 percent of potential sugar output is lost because of antiquated handling and processing facilities. New investment under the Food Program could eliminate some of this waste.

Even under a scenario of relatively high production, the Soviets would need to import large amounts of sugar in the late 1980s. The USSR probably will continue to import at least 3 million tons a year on average from Cuba. Imports from other sources are likely to range from perhaps 1 million tons to 2 million tons or more, depending on policy and market considerations. If the Soviets are unable to turn their sugar production around, non-Cuban imports could be as much as 2 million tons above current levels. 25X1

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The Sugar Lever—A Political Perspective

Moscow's attempts to play its sugar card will depend on (1) the perceived political benefits, (2) Soviet supply and demand for sugar, (3) relationships with existing suppliers—particularly with Cuba, which enjoys a special place in any calculation of the Soviet sugar balance—and (4) Soviet ability to pay for sugar imports either in convertible currency or in goods acceptable to sugar exporters. 25X1

Moscow's ability to move among suppliers in the sugar market carries with it a potential for creating political gains from commercial transactions borne of necessity. The fact that it can simultaneously buy sugar and political good will apparently has not escaped Moscow's attention (see inset, "A Case for Political Purchases"). Nevertheless, Soviet exercise of economic leverage for political purposes has always been cautious—restrained by a realistic assessment of the limits of such leverage and by the desire not to put at risk assets already in hand. 25X1 25X1

The extent to which the USSR plans to take advantage of opportunities to use sugar as a policy lever is not known. However, for the LDCs the prospect of large Soviet sugar purchases takes on increased importance in a glutted market (see figures 5 and 6). Even relatively small Soviet purchases are helpful at the margin for financially strapped LDCs. 25X1

In the case of new *leftist-leaning regimes,* such as Nicaragua, for example, the ability of the United States to hurt the Nicaraguan economy by reducing

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A Case for Political Purchases

Although most Soviet sugar deals are transacted in normal commercial fashion, reflecting primarily supply and demand conditions of the sugar market, some seem to exhibit astute political timing by Moscow or a convergence of political and economic interests. During the past eight years, Soviet sugar purchases from Peru, for example, occurred in only two years—1975 and 1980. In both of those years, there was a change in Peru's government. Although there is no evidence as to Moscow's motivation, it seems unlikely that the timing of the sugar purchases was coincidental with these major political events. They may have been linked with earlier Soviet arms sales.

Zimbabwe is another case in point. The only recent Soviet sugar purchase occurred in 1980, the first year of independence. Moscow, which had backed the losing faction in the civil war, apparently felt the need to make a goodwill gesture toward the Mugabe regime by trying to improve trade relations. Certainly the small amount of sugar it purchased—15,000 tons—could have been acquired more conveniently from another supplier, given Zimbabwe's deteriorated transport system after the war. Moscow's gesture apparently had little impact, however, as Mugabe did not establish diplomatic relations with the USSR until March 1982 and political ties remain generally cool. 25X1

As for other examples, the only Soviet sugar purchase from Guyana occurred in 1975, the same year that Moscow's first resident diplomatic mission arrived in that country. The Soviets first purchased Nicaraguan sugar in 1980, just after the current leftist regime came to power. 25X1

Moscow's opportunism may also be reflected in the Soviet response to the imposition of smaller sugar import quotas by the United States in May 1982. A country-by-country comparison of decreases in US sugar imports during 1981-82 with increases in Soviet sugar imports in the same period shows a degree of correlation between the two. While the timing of the Soviet response may be purely coincidental, related more to Soviet needs for sugar, in some cases—particularly Thailand and Nicaragua—the virtually identical offsets suggest that politics may have played a role. 25X1 25X1

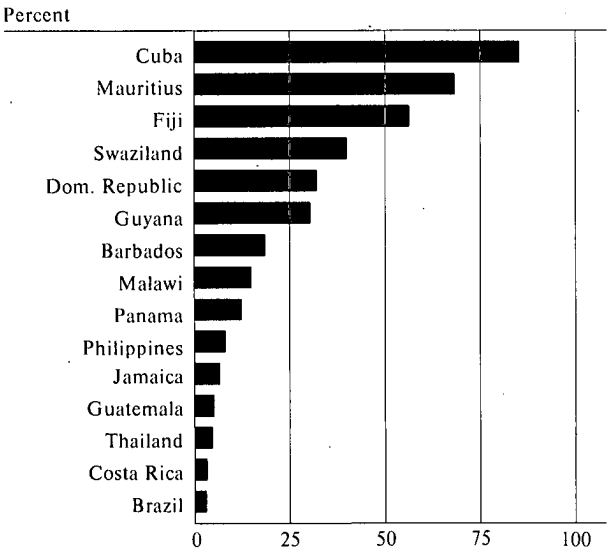
its sugar import quota from 53,000 tons to only 5,400 tons has been defused by a standing offer from Moscow to purchase any unsold sugar resulting from this sanction, To the extent that leftist-leaning countries believe a trade weapon is being used by the United States or its Allies, Moscow can play on that fear. In most cases the Soviets can provide, if they desire, a guaranteed market, underwriting a portion of a country's economy as they have in Mozambique.

In dealing with *sugar-surplus countries* that also have serious economic problems, Moscow, by providing a market for their sugar, could buy some political good will. Such transactions would be unlikely to change the basic position of a regime, but they could soften it. In Guyana, a country whose economic prospects are deteriorating rapidly, a Soviet offer to take a large quantity of sugar could help improve a relationship that has been lukewarm. Moscow would be likely to play up the fact that the United States, in contrast, reduced its Guyanese sugar purchases by some 35,000 tons when it imposed a sugar import quota system in May 1982. The quota system reduced total US imports from an average of 4 million tons to 2.8 million. 25X1 25X1 25X1 25X1

Moscow could also use sugar purchases to influence *countries squarely in the US camp.* In the case of Thailand, the US import quota system has come at a

[4] Although no price was specified, the Soviet Union presumably would buy this relatively small quantity of sugar at the US quota price, which is about double the current world market rate. 25X1

Figure 5
Selected Countries[a]: Sugar Export Earnings as a Share of Total Exports, Average 1978-81



[a] Countries for which sugar is a major export.

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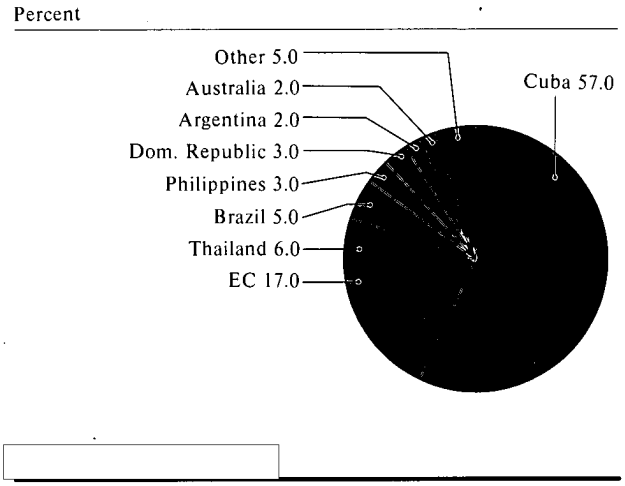
Figure 6
USSR: Sugar Import Shares, 1982



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time when Bangkok has undertaken a spectacularly successful export diversification program. Thailand's sugar exports nearly doubled in 1982, making sugar the third leading export earner after rice and tapioca. While the US sugar quota reduced purchases from Thailand by nearly 200,000 tons, the USSR boosted its Thai sugar purchases by more than 160,000 tons (see table 4). A mid-1982 trade agreement between Bangkok and Moscow, which calls for an expansion of bilateral trade and the setting of trade targets, could provide the basis for a long-term Soviet sugar purchase. Thus far, this has not occurred.

Other targets of opportunity may include such *nonaligned states* as India, Argentina, and Peru. While the sugar lever is not powerful enough by itself to pry any country off the fence, Moscow could, nevertheless, use sugar purchases together with other incentives to nudge a regime in its direction. Moscow may find India a particularly attractive target. With record production the last two crop years and a small export quota, India finds itself with rapidly mounting supplies of unsold sugar. New Delhi has said it plans to petition the International Sugar Organization (ISO) to raise its export quota by 50 percent, to 1 million tons, as well as to increase its own buffer stock from 500,000 tons to 1.5 million. Unless India's domestic production policies are changed, however, these actions will provide only temporary relief. An offer by Moscow to take a large quantity of sugar, perhaps bartering oil in return, might prove difficult to refuse.

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Moscow's strategy in the international sugar market may indeed be affected by whether it can arrange such barter deals rather than pay for sugar imports with hard currency.[5] For example, the Soviets may attempt to barter various types of machinery which—despite the generally inferior quality by world standards—may be attractive to sugar-producing LDCs already facing large international debts and a glutted market for their primary export. The USSR's own hard currency position may be much tighter by the

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[5] Nearly all of Cuba's sales to Moscow are conducted on a soft currency basis.

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Table 4 *Thousand metric tons*
Comparison of US and Soviet Sugar Imports From Selected Countries, 1982

	Changes in US Purchases [a]	Changes in Soviet Purchases [b]
Total	**−2,008**	**545**
Brazil	−564	15
Australia	−567	157
Dominican Republic	−185	180
Argentina	−284	−23
Philippines	147	−65
Thailand	−190	163
Colombia	−128	24
Guatemala	−58	64
Swaziland	−107	
Panama	−25	
Zimbabwe	−84	
Honduras	−57	
Guyana	−35	
Malawi	−48	
Nicaragua	−4	5
Costa Rica	−15	
Mozambique	−10	25
Ecuador	−7	
Belize	−13	
El Salvador	47	
Peru	115	
South Africa	64	

[a] Maximum imports allowed by 1982 quota compared with actual 1981 imports.
[b] 1982 imports compared with 1981 imports.

late 1980s, forcing Moscow to stress barter agreements. Such agreements would be consistent with current Soviet efforts to expand exports, especially to those countries where it is currently incurring large trade deficits such as India, Brazil, and Argentina.

In contrast to direct sugar purchases, the USSR probably will not find its membership in the ISO of much benefit in wooing LDC sugar exporters. Thus far, it has maintained a low profile in negotiations for a new international sugar agreement to replace the one that expires in December 1984. The USSR has generally refrained from playing politics in the ISO, except in protecting its special relationship with Cuba (see inset, "New Sugar Agreement—A Placebo").

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Implications for the United States

The highly politicized nature of domestic sugar markets and world sugar trade has been an additional complicating factor in a broad range of political and economic issues such as North-South and East-West relations, the debt problem, and global trade barriers. The United States, as the world's largest sugar user, can expect to be buffeted from all sides:

- ***LDCs.*** They will cite cutbacks in US sugar imports as a primary cause of low sugar prices and their effect on export earnings. LDCs may attempt to link at least a portion of their debt problems to reduced sugar incomes in negotiations with the United States.

- ***The European Community.*** The EC is likely to try to capitalize on its lead role in formulating a new sugar agreement, especially if it agrees to cut its sugar exports. The EC and other sugar producers are likely to shift the blame for the depressed sugar market to US sugar import quotas.

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- ***The USSR.*** The Soviet Union's capacity to absorb large quantities of sugar can be used by Moscow to negate US sanctions involving sugar purchases. Large Soviet sugar purchases—as high as a million tons in a single day—often concealed through London sugar traders, create additional uncertainty in an already volatile market.

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How the USSR will play its hand in the ISO and with the LDCs is uncertain. Moscow does not hold all the cards, however. In the longer term it is somewhat constrained by a shortage of hard currency and a lack of salable export goods. Moreover, its course of action will continue to be influenced by the size of future Cuban sugar crops as well as its own. Nevertheless, the recent shift in Soviet sugar import needs, while creating additional foreign exchange pressures, presents Moscow with an instrument of influence that it certainly will not ignore.

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New Sugar Agreement—A Placebo

The major sugar producers are negotiating a new sugar agreement to replace the current one, which expires in December 1984. Negotiations have centered on the type of regulatory mechanism needed to keep prices in a range acceptable to producers and consumers. The European Community is pushing to eliminate most export quotas, substituting a large buffer stock instead. Past agreements have relied almost exclusively on export quotas to apportion sugar market sales, with special stocking arrangements playing only a minimal role. None of the past agreements has been successful in keeping world sugar prices in the desired range, nor have they had any effect on curbing oversupply.

Most sugar exporters consider it crucial that the EC become a party to any new agreement. A 5-million-ton exportable sugar surplus makes the EC a potent force in the world market. The EC knows this and has, thus far, been calling most of the shots during the negotiations. The Community's controversial proposal, which would lift all quotas for the 10 largest exporters and require importers to help finance a 6-million-ton buffer stock, dominated the sugar talks in Geneva in May. Although no agreement was reached, the talks ended on an optimistic note with most parties demonstrating some willingness to compromise. An informal consultative group met in July in an attempt to narrow, if not resolve, most of the differences over the type of regulatory mechanism to be incorporated into a new agreement before formal talks resumed in September.

At the July meeting the chairman of the special group, Jorge Zorreguieta of Argentina, tabled a compromise proposal that would make greater use of stocks than in the past but would continue to use export quotas—called reference export availabilities (REAs)—to control free market sugar supplies. Although the compromise proposal was generally well received, key countries are still reserving their official positions. French authorities have since voiced strong objections to this "watered down" version of the EC stocking proposal. Support by France, which accounts for about 60 percent of the EC's annual sugar surplus, will be critical to any EC decision to ratify a new sugar agreement.

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Other stumblingblocks to a new agreement revolve around the special arrangements accorded sugar trade between the EC and the African, Caribbean, and Pacific producers and Cuba's sugar trade with the Bloc countries. Neither is limited by export quotas under the current agreement. A proposal by Australia to include substitute sweeteners traded internationally in any new agreement has been opposed by the United States and others.

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It now appears that a new agreement will be hammered out, if not this fall then early in 1984. However, because of the compromises that will probably have to be made to satisfy the disparate interests of exporters and importers, developed countries and LDCs, East and West, and so forth, any new agreement is likely to be ineffectual.

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Appendix

World Sugar Statistics

Table A-1
World Raw Sugar Production, Consumption, and Stocks

Million metric tons

	Production	Consumption	Stocks	Stocks as a Percentage of Consumption
1975	81.6	77.3	32.6	42
1976	86.6	82.0	36.7	45
1977	92.0	84.9	46.3	55
1978	90.8	86.2	45.3	53
1979	89.2	89.9	43.2	48
1980	84.6	87.9	39.6	45
1981	92.6	88.7	41.1	46
1982	100.7	91.9	48.8	53

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Table A-2
World Raw Sugar Production, by Region

Million metric tons

Region/ Major Producer	1975	1976	1977	1978	1979	1980	1981	1982
World total [a]	**81.6**	**86.6**	**92.0**	**90.8**	**89.2**	**84.6**	**92.6**	**100.7**
North America	6.1	6.6	5.9	5.3	5.6	5.4	5.9	5.5
United States	6.0	6.4	5.8	5.1	5.4	5.3	5.8	5.4
Central America	12.3	12.5	13.3	14.3	14.3	12.7	13.7	14.3
Cuba	6.4	6.2	7.0	7.7	7.8	6.8	7.9	8.0
South America	11.3	12.5	13.9	12.9	12.1	13.3	13.7	14.1
Brazil	6.3	7.2	8.8	7.9	7.4	8.3	8.7	8.9
Western Europe	13.7	14.3	16.2	16.5	16.6	16.7	18.8	19.6
European Community	11.1	11.2	12.8	13.2	13.6	13.5	15.5	15.7
Eastern Europe	13.2	13.3	14.4	14.9	13.5	12.0	12.1	12.5
USSR	8.2	8.5	8.9	9.4	7.9	7.2	6.4	7.0
Africa	5.2	5.5	6.0	6.1	6.2	6.0	6.5	7.0
South Africa	2.0	2.1	2.4	2.3	2.1	1.8	2.0	2.4
Asia	16.6	18.1	18.5	17.6	17.5	14.7	17.9	23.5
India	5.0	5.0	5.0	7.1	6.1	4.5	6.0	9.1
Oceania	3.2	3.7	3.8	3.3	3.4	3.9	4.0	4.2
Australia	2.9	3.4	3.5	3.0	3.0	3.4	3.5	3.7

[a] Because of rounding, data may not add to totals given.

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Table A-3
World Raw Sugar Consumption, by Region

Million metric tons

Region/ Major Producer	1975	1976	1977	1978	1979	1980	1981	1982
World total [a]	**77.3**	**82.0**	**84.9**	**86.2**	**89.9**	**87.9**	**88.7**	**91.9**
North America	10.2	11.0	11.5	11.1	11.0	10.3	9.9	9.4
United States	9.1	10.0	10.4	10.0	9.9	9.3	9.0	8.5
Central America	4.2	4.3	4.4	4.7	4.8	5.0	5.1	5.5
Cuba	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.6
South America	8.8	9.0	9.2	9.4	10.3	10.7	10.3	10.4
Brazil	5.0	5.1	5.1	5.3	6.0	6.3	5.9	6.1
Western Europe	13.4	14.9	14.4	14.9	15.0	15.0	14.6	14.6
European Community	9.8	11.0	10.2	10.9	10.8	11.0	10.6	10.6
Eastern Europe	16.6	17.3	17.4	17.8	17.9	17.8	17.9	18.7
USSR	11.3	12.0	12.0	12.1	12.2	12.3	12.5	12.6
Africa	5.1	5.3	5.9	6.3	6.5	6.9	7.5	7.3
South Africa	1.2	1.3	1.3	1.1	1.1	1.3	1.3	1.3
Asia	18.1	19.3	21.2	21.1	23.3	21.2	22.3	24.7
India	3.9	4.0	4.2	5.2	6.7	5.0	5.4	6.7
Oceania	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Australia	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8

[a] Because of rounding, data may not add to totals given.

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Table A-4
Raw Sugar Production of Selected Countries

Thousand metric tons

	1975	1976	1977	1978	1979	1980	1981	1982
Non-Communist [a]								
Argentina	1,367	1,559	1,666	1,397	1,411	1,716	1,624	1,563
Australia	2,930	3,395	3,452	2,978	2,961	3,415	3,509	3,652
Brazil	6,299	7,236	8,759	7,913	7,362	8,270	8,726	8,941
Canada	120	156	155	123	133	92	99	129
Colombia	970	935	853	1,014	1,107	1,247	1,212	1,318
Dominican Republic	1,170	1,287	1,258	1,199	1,200	1,013	1,108	1,285
European Community [b]	11,126	11,164	12,752	13,170	13,613	13,545	15,476	15,724
El Salvador	244	261	318	279	274	217	182	199
Gabon	NA	0	5	8	10 [c]	12	15 [c]	15 [c]
Guatemala	384	517	487	446	415	452	474	580
Guyana	311	343	253	342	316	286	320	305
Mozambique	260	220	320	190	212	170	178	126
Nicaragua	210	242	226	222	202	190	214	247
Peru	964	930	900	856	695	537	478	650 [c]
Philippines	2,672	2,984	2,624	2,273	2,390	2,332	2,376	2,709
Swaziland	224	226	238	257	258	328	368	402
Thailand	1,216	1,757	2,361	1,664	1,981	778	1,702	3,017
United States	5,955	6,438	5,764	5,133	5,435	5,313	5,789	5,418
Zimbabwe	257	NA	316	324	314	358	391	401
Cuba	6,427	6,151	6,953	7,662	7,800	6,805	7,926	8,039
USSR	8,200 [c]	8,500 [c]	8,885	9,353	7,927 [c]	7,250	6,413	7,000 [c]

[a] Countries that export to the USSR.
[b] Including Greece.
[c] Estimated by the ISO.

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Table A-5
Raw Sugar Exports of Selected Countries [a]

Thousand metric tons

	1975	1976	1977	1978	1979	1980	1981	1982
Non-Communist								
Argentina	197	293	958	367	351	484	709	338
Australia	1,976	2,621	2,965	2,002	2,003	2,411	2,982	2,504
Brazil	1,730	1,252	2,487	1,925	1,942	2,662	2,670	2,788
Canada [b]	86	54	145	136	120	14	138	97
Colombia	198	100	0	132	278	280	177	293
Dominican Republic	975	999	1,117	937	1,035	792	864	850
European Community [c]	702	1,903	2,751	3,587	3,621	4,325	5,344	5,580
El Salvador	140	130	169	133	164	35	49	56
Gabon [b]	0	0	0	0	0	0	7	0
Guatemala	204	321	294	153	195	210	228	218
Guyana	295	306	218	295	280	263	282	265
Mozambique	72	147	208	36	80	64	63	28
Nicaragua	89	153	102	104	111	69	89	97
Peru	422	284	412	266	181	53	0	69
Philippines	1,006	1,515	2,575	1,142	1,157	1,793	1,278	1,301
Swaziland	201	209	211	226	236	317	345	344
Thailand	668	1,145	1,675	1,029	1,210	460	1,155	2,045
United States [b]	203	69	20	20	14	587	949	49
Zimbabwe	116	NA	159	142	256	219	164	229
Cuba	5,744	5,764	6,238	7,231	7,269	6,191	7,071	7,734

[a] Countries that export to the USSR.
[b] Net importer.
[c] Including Greece.

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