EC TRADE PREFERENCES FOR ACP COUNTRIES AND INTERNATIONAL INCOME DISTRIBUTION: THE CASE OF THE EC SUGAR PROTOCOL

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The demand for trade preferences only arises if there are barriers to international trade. The high international demand for sugar preferences is due not only to the highly protective EC sugar policy, which applies the instruments of variable levies and quotas, but it is affected by the nature of the sugar as well. Sugar can be produced from two different raw products. Sugarbeet is grown under temperate climatic conditions and sugarcane under tropical.

The demand for trade preferences will only create effective preferences if the economic and social environment favours the pressure groups. The bargaining situation for the ACP (African, Caribbean, and Pacific) countries was quite favourable in the period of negotiations. They had a plausible argument with which to start negotiations because they were traditional exporters of sugar to the United Kingdom before it joined the Common Market. Also, world market prices for sugar were above EC prices in the final phase of the negotiation period (Webb). The outcome was that the ACP countries, India, and two French overseas departments were allowed to export a fixed quota of sugar to the EC of 1.3 million tons annually, which was about equal to the quantities they had exported to the United Kingdom before. Moreover, these quantities could enter the EC without duties, and at a guaranteed price if the market price were lower. Thus, the first enlargement of the EC may give rise to a windfall profit to these sugar exporting countries when the EC price is higher than the world market price for sugar.

The purpose of this paper is to analyze the distributional effects of trade preferences. Such effects can only be identified with respect to a well defined reference system, which indicates the alternatives to trade preferences. Of course various alternatives are conceivable and discrimination against some and selection of others imply a value judgment. I assume that without trade preferences we would either have the same protectionist EC sugar policy or free trade.

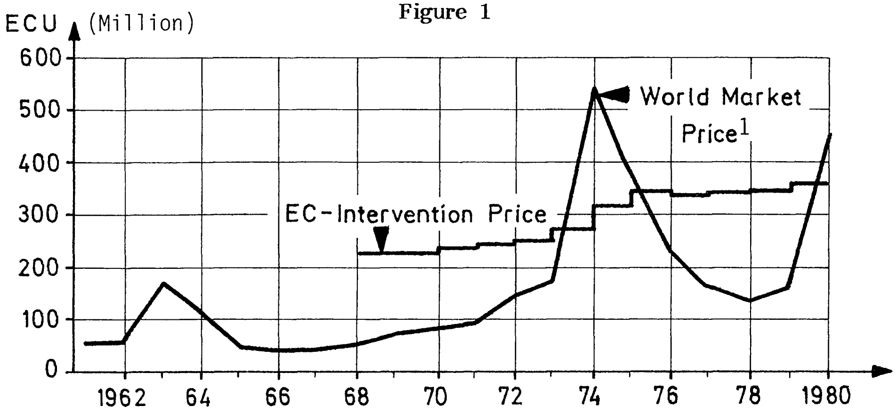
The EC sugar protocol may have distributional or allocative effects, depending on the behaviour of the preferred countries. If we assume that those countries try to maximize their domestic income, the optimal domestic sugar production is given by the intersection of the marginal cost curve and the marginal revenue curve. Neither determinant is affected by trade preferences. Hence, sugar production in preferred countries should not change because of the EC sugar protocol. The income transfer which the ACP countries may receive equals the quantity which they are allowed to deliver to the EC multiplied by the f.o.b. price for sugar delivery to the EC minus the f.o.b. price for delivery to other countries. Nevertheless, allocative effects cannot be avoided completely. The ACP countries receive the income transfer only if they actually deliver the sugar to the EC. But the EC as a net exporter of sugar has to reexport the same quantity of sugar in addition to the EC exportable surplus. This indicates that there is probably a waste of resources as far as shipping tonnage is concerned. If the recipient countries behave as postulated above, world production and consumption of sugar are unaffected by the EC sugar protocol. Hence, nonpreferred countries could be indifferent in their attitude to the protocol. However, empirical evidence shows that some countries apply a mixed price system. Domestic producers get a price somewhere between the EC price and the world market price. As the EC price is normally considerably higher than the world market price, producer prices are higher than without the EC sugar protocol. Consequently, domestic sugar production will be higher, leading to an increase in world sugar production and to somewhat lower world market prices. This has two consequences: (1) there is an additional distortion in the world sugar economy due to the EC sugar protocol; and (2) nonpreferred countries are affected. Sugar exporters lose and sugar importers gain.

The relevance of the sugar protocol from a preferred country's point of view depends on the differential between EC prices and world market prices (figure 1), and the quantity (quota) it is allowed to deliver (that is, its share of the quota in actual sugar exports and sugar production)(table 1). As the criterion for fixing the quotas was the quantity exported in the past to the United Kingdom, the quotas differ greatly between countries. The same holds true for the shares of quotas in domestic production. Mauritius is able to sell about three quarters of its domestic production to the EC; Barbados, Fiji, and Swaziland may sell about half their production to the EC; but India is only allowed to sell less than 1 percent to the EC.

Table 2 gives information about the maximum transfer individual countries could receive from the EC sugar agreement. To indicate the relevance from the individual country's point of view and to make the effects on each country more comparable, figures on the transfer per capita and on gross domestic product (GDP) per capita are presented. It can be seen that Mauritius received the highest transfer in absolute and per capita terms in all years. In 1975/1976, the transfer accounted for 22 percent of GDP. The transfer effects were above average for Guyana, Jamaica, Swaziland, Fiji, and Barbados. The comparison of GDP per capita indicates that the preferred countries with above-average GDP do not belong to the group of the poorest ACP countries. In general, it can be said that the transfer effects are arbitrary and do not correspond to the objective of equalizing the income distribution between the ACP countries or any other official objective of the EC.

We have shown that the EC protective sugar market policy affects developing countries differently, and that the special sugar agreement with the ACP countries has differing effects as well. As the welfare effects due to changes in world market prices as well as the transfer effects have been calculated in monetary terms, and both effects express partial welfare effects, an aggregation is possible (table 3). It can be seen that India is the only country that was adversely affected in 1978/1979. The welfare gain for all countries came to 194 million ECUs (European Currency Units). Of course the balance can only be positive if EC prices are above world market prices, as they were during most of the past.

Figure 1



ECU = European Currency Unit.

[1]Prices of the international sugar agreement.

Table 1. Delivery Quotas of Preferred Sugar Exporters, Actual Deliveries, and Shares of Quotas in Domestic Production

Preferred Countries	Delivery Quotas[1] in 1979	Actual Delivered Quantities as Share of Delivery Quota				Share of Delivery Quota in Total Domestic Production			
		1976	1977	1978	1979	1976	1977	1978	1979
	Tons	Percent							
Barbados	49,300	89	118	109	93	50	45	52	46
Fiji	163,600	78	114	100	102	58	48	50	39
Guyana	157,700	116	99	109	94	50	68	50	54
Jamaica	118,300	120	107	119	69	35	43	42	44
Kenya	93	61	1	148	99	3	3	3	0
Madagascar	10,000	67	142	95	95	10	9	9	9
Malawi	20,000	53	49	99	105	25	23	23	19
Mauritius	487,200	98	98	92	87	72	75	75	73
Swaziland	116,400	86	9	104	114	56	53	49	49
Tanzania	10,000	99	102	196	0	10	10	8	9
Trinidad and Tobago	69,000	105	126	79	99	37	42	51	52
Uganda	409	0	61	0	0	28	43	68	4
Rep. of the Congo	4,957	0	93	48	101	32	69	109	36
Surinam	2,667	7	42	76	98	43	43	109	24
Belize	39,400	107	115	102	101	63	44	36	41
St. Kitts-Nevis-Anguilla	14,800	107	98	113	98	44	38	39	40
India	25,000	161	110	93	100	1	1	0	0
Total	1,288,826	98	95	100	96	18	18	14	14

[1] Up to the EC crop year 1978/1979, Kenya was allowed to deliver 5,000 tons as well as Uganda. The Congo could deliver 10,000 tons and Surinam 4,000 tons. Because they did not fulfill their quotas, these countries got a reduction up to the figures given in the table.

Table 2. Maximum Income Transfer from the EC Sugar Protocol

Preferred Countries	1975/76			1976/77			1977/78			1978/79		
	Maximum Transfer		GDP	Maximum Transfer		GDP	Maximum Transfer		GDP	Maximum Transfer		GDP
	Total	Per Capita	Per Capita	Total	Per Capita	Per Capita	Total	Per Capita	Per Capita	Total	Per Capita	Per Capita
	(Mil. ECU)	(ECU)		(Mil. ECU)	(ECU)		(Mil. ECU)	(ECU)		(Mil. ECU)	(ECU)	
Barbados	8.7	35.5	1184	5.0	20.2	1493	8.6	34.6	1570	8.8	35.1	1471
Fiji	32.3	56.7	916	20.0	34.5	1060	31.9	53.2	1088	32.8	54.7	1092
Guyana	27.9	36.3	428	16.0	20.2	525	28.7	34.6	500	29.1	34.9	417
Jamaica	21.0	10.3	932	12.0	5.8	1060	20.7	9.9	1026	21.1	9.9	842
Kenya	1.0	0.1	185	0.6	0	230	1.0	0.1	241	1.0	0.1	243
Madagascar	2.1	0.2	168	1.3	0.1	184	2.0	0.2	188	2.1	0.3	190
Malawi	4.1	0.8	109	2.6	0.5	120	4.0	0.7	125	4.2	0.7	136
Mauritius	100.0	113.3	512	63.8	71.4	627	99.0	112.5	678	102.3	111.4	629
Swaziland	24.1	48.8	370	15.5	30.3	497	23.9	46.8	518	24.7	46.9	447
Tanzania	2.0	0.1	143	1.3	0.1	166	2.0	0.1	178	2.1	0.1	174
Trinidad and Tobago	12.2	11.3	1680	7.0	6.4	2018	12.1	10.8	2124	12.3	10.8	2206
Uganda	1.0	0.1	193	0.6	0.1	230	1.0	0.1	232	1.0	0.1	n.v.
Rep. of the Congo	2.1	1.4	344	1.4	1.0	488	2.1	1.4	446	2.1	1.5	409
Surinam	0.7	1.9	1151	0.4	0.9	1253	0.7	1.6	1338	0.7	1.8	1600
Belize	7.0	49.9	563	4.0	31.0	728	6.9	53.1	624	7.0	53.2	637
St. Kitts-Nevis-Anguilla	2.6	53.5	537	1.5	30.6	590	2.6	51.9	508	2.6	52.7	500
India	5.0	0	118	3.1	0	129	4.9	0	125	5.1	0	136
Total	253.8	0.4	130	156.1	0.2	144	252.1	0.4	142	259.0	0.4	-

Table 3. Transfer and Welfare Effects of the EC Sugar Protocol in 1978/1979

Preferred Countries	Transfer Effect[1]	Welfare Effect[2]	Net Effect[3]	Net Effect including a mixed price system[4]
	Million ECU			
Barbados	8.9	-1.3	7.6	6.6
Fiji	33.1	-5.9	27.2	24.3
Guyana	29.5	-3.1	26.4	22.5
Jamaica	19.8	-2.7	17.1	14.7
Kenya	1.2	0.2	1.4	1.4
Madagascar	2.0	-0.3	1.7	1.7
Malawi	4.3	-1.3	3.0	2.8
Mauritius	91.6	-3.5	88.1	71.8
Swaziland	26.9	-2.8	24.1	21.5
Tanzania	2.1	0	2.1	2.1
Trinidad and Tobago	10.9	-0.4	10.5	8.9
Uganda	0	0.1	0.1	0.1
Rep. of the Congo	1.6	0.2	1.8	1.7
Surinam	0.6	0	0.6	0.6
Belize	7.1	-1.3	5.8	5.1
St. Kitts-Nevis-Anguilla	2.7	-0.6	2.1	1.8
India	4.9	-30.4	-25.5	-25.5
Total	247.2	-53.1	194.1	162.1

[1]Calculated as the product of the maximum income transfer from table 2 and the share of actual delivered quantities in the delivery quota.

[2]Welfare gains and losses due to the EC sugar price policy.

[3]Sum of transfer and welfare effects.

[4]Net effect minus the welfare loss on the production side considering a mixed producer price system.

Summary

The EC sugar protocol implies a special form of trade preferences for some sugar producing developing countries. The analysis shows that there are product tied income transfers from the EC to the preferred countries in normal years when EC sugar prices are far higher than world market prices. These positive transfer effects overcompensate for the negative welfare effects due to lower world market prices for all ACP countries. However, these transfer effects are associated with several negative byproduct distortions.

Even if domestic sugar production in the preferred countries is unaffected by the protocol, total world welfare will decline because the pattern of sugar shipments has been distorted. Developing countries have to export sugar to the EC in order to receive the transfer, but the EC itself has to reexport the same quantities of sugar, as it produces more than it consumes.

As some preferred countries apply a mixed price system domestically, farmers may get a higher producer price because of the sugar protocol. This holds true, for example, for Mauritius. Hence, an additional negative effect on the production pattern of the world sugar economy arises.

The benefits are quite unevenly distributed among the favoured countries. The transfer effects do not correspond to any of the official objectives of the EC development policy.

The sugar protocol is likely to discriminate against the nonpreferred countries as far as exporters are concerned. World market prices might be even more depressed, and, moreover, the group of opponents of the protective EC sugar policy may be split.

Nevertheless, it is possible that the EC maximizes goodwill for its protective EC sugar policy with given financial resources by virtue of the sugar protocol. In general, preferred countries are sufficiently small that a given transfer is enough to buy their goodwill.

Note

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Reference

Webb, C., "Mr. Cube Versus Monsieur Beet: The Politics of Sugar in the European Community," in Wallace, H., Wallace, W., and Webb, C. (Eds.), *Policy Making in the European Communities*, John Wiley, Chichester, New York, Brisbane, and Toronto, 1977, pp. 197-226.