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National Development Strategy

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Sugar

The authors of the National Development Strategy (NDS) consider it to be somewhat disturbing that the sugar economy, on which the country relies so much for a high proportion of its foreign exchange, and for employing a significant amount of its population is, to a large extent, dependent on the preferential treatment it is afforded in Europe, the USA, and the CARICOM countries. Indeed, it might be argued, at the risk of appearing to be over-dramatic, that without the existence of guaranteed sugar quotas and favourable prices Guyana's developmental prospects would be in dire straits.

It is obvious, therefore, as the authors of the NDS point out again and again, almost ad nauseam, that it is imperative that our economy be diversified as soon as possible, and that we strive to become as competitive as we possibly can in all sectors.

As the NDS states, Guyana's sugar is produced by a state-owned enterprise, the Guyana Sugar Corporation (GUYSUCO) which has been managed since 1990 by a privately-owned company, Booker-Tate. The sugar sector contributes 16 percent of the country's total GDP and 30 percent of its agricultural GDP. It is the country's largest net earner of foreign exchange, and the biggest corporate contributor to public revenue. In addition, it directly employs 25,000 people or about 10 percent of Guyana's labour force and, indirectly, a further 10 percent of the country's citizens.

GUYSUCO is the largest agricultural entity in Guyana, holding at least 164,000 acres of the country's lands on the over-crowded coastland. It however, utilises only about 110,000 acres, allowing the remaining 54,000 acres to lie idle. Indeed, much of the unutilised land appears to have been permanently abandoned. The authors of the NDS are adamant that such lands should be transferred to relevant government agencies and used for housing settlements, or agricultural and industrial development.

The most problematic feature of the sugar industry is the fact that although production costs have been significantly reduced in recent years, Guyana still remains a relatively high-cost producer. Indeed, our current costs do not compare favourably with those of the USA, North East Brazil, Mauritius, India, Fiji, Australia, Guatemala, and Malawi, for example. It is evident, therefore, that were it not for existing arrangements, such as the EU/ACP Sugar Protocol, the EU/SPS programme, the USA sugar programme, and the Common External Tariff which CARICOM countries apply, which give preference to the entry of Guyana's sugar at prices that are usually higher than those obtainable in the non-preferential market, Guyana would be unable to sell much of its production of this commodity.

It is important to note, also, as the NDS points out, that production costs are by no means evenly distributed across Guyana. They are highest in the western regions of the country (the so-called Demerara estates), and lowest in Berbice, to the east. The differences in productivity between these two areas are partly caused by agro-climatic conditions and, so it is sometimes claimed, partly by contrasting management practices in the sugar estates.

The management of GUYSUCO is, of course, aware of the problems which beset the industry, and has formulated a plan which is designed to enable the company to become "an entrepreneurial, customer driven, retail market oriented producer of top-quality sugar and associated value-added by-products, at a cost which will enable it to compete in any foreseeable market environment". The plan proposes to (i) increase sugar production to 435,000 tonnes per annum from its current average output of about 300,000 tonnes; (ii) reduce production costs to US10 from 11 cents per pound; (iii) sell to more countries in CARICOM; (iv) increase the total volume of sugar exports to CARICOM territories; (v) develop more regional markets; (vi) add value to the basic output through the production of special sugars; (vii) introduce new pack sizes and packaging; (viii) establish a distillery; (ix) build a sugar refinery and (x) develop an intra-Caribbean market for refined sugar.

In pursuance of these objectives, the management of GUYSUCO intends to establish a new 111,000 tonnes factory at Skeldon; designate new lands for mechanisation; close the Rose Hall factory; expand the Albion facilities to 153,000 tonnes; utilise diffusion technology at both the Skeldon and Albion factories; increase sugar production at other factories in order to secure another 171,000 tonnes of sugar per annum; improve and upgrade agricultural practices; introduce new varieties of cane; and co-generate power from the Guyana Power and Light Company and GUYSUCO's own bagasse, for use in the new and expanded factories.

As the NDS puts it, the company is of the opinion that, if its plans were implemented, the benefits which would accrue to Guyana would include an increase in net foreign exchange earnings of US$80 million; the generation of sufficient cash resources to enable it to pay dividends from 2006; and the enhancement of rural wealth.

It cannot be too strongly emphasised, however, that the plan is based on a number of assumptions. First, that the current preferential markets will remain for some time even though prices might be reduced. Second, that the preferential allocation would be augmented by amounts accruing from those CARICOM countries in which sugar production would decline to such an extent that they would fail to meet their preferential targets. And third, that sugar sales from Guyana to other CARICOM countries would increase to at least 80,000 tonnes. This would come about because it is assumed that about two-thirds of the 120,000 tonnes of sugar which CARICOM currently imports would become uncompetitive because of CARICOM Common External Tariff. Guyana would take advantage of this protective device. It will be apparent that, according to these plans, for a significantly long time to come, the future of our sugar industry will continue to depend in large measure on preferential markets and on a certain degree of protection. This is not an entirely satisfactory state of affairs.

It is projected that the total cost which would be incurred in the realisation of the plan would be US$200 million: US$67 million for the new Skeldon operations; US$64 million for the expanded facilities at Albion; and US$49 million for the refurbishing of other estates. It is intended that US$130 million of the required amount would be raised from loans; US$40 million from GUYSUCO's own resources; and US$30 million from the sale of the nation's land.

The authors of the NDS, perhaps not surprisingly, have carefully studied this plan, and have held discussions with representatives of GUYSUCO's Board of Directors and management. The authors of the NDS fully appreciate the important role which the sugar industry plays in Guyana's development, and have therefore resolved that a strategy should be devised which would ensure that the sector continues to contribute to the country's well-being. However, because many of the factors which might influence the level of its contribution to our economy are beyond our control, the authors of the NDS have decided to proceed in a measured manner and not to over-commit scarce financial resources to a programme of development that might be based on insecure assumptions and premises. They therefore focused their attention on the probable future world price of sugar, the probable future share of the CARICOM market for Guyana's outputs of sugar and sugar products, the probable future disposition of preferential markets, and Guyana's ability in the future to compete in a globalised world.

The authors of the NDS soon decided that it would be a somewhat futile exercise for them to engage in calculations which were meant to indicate what the future world price for sugar would be after the current preferential prices are removed. They considered that this would be an exercise in futility for three basic reasons. First, it is inherently difficult to forecast the price of a commodity such as sugar over too long a time horizon, simply because technologies tend to change, there may be significant structural changes in the political economy of the industry, and also because it takes only two or three years to bring idle sugar land back into cultivation. Second, the authors were convinced that there is really no "world price" for sugar, because most of the world's sugar is either sold in preferential or in home markets in which prices differ considerably, are often subsidised, and are definitely not market prices. Third, the "residual sugar price" or the non-preferential sugar price has fluctuated wildly over the last decade or two. Accordingly, there is really no reliable trend on which to assess prices, and even if there had been such a trend, so the NDS argues, such a "trend" would have little validity in a non-preferential world, because the residual market is only a portion of world consumption.

The authors of the NDS therefore concluded that it would not be entirely convincing to base the future of what is certainly one of the most important industries in Guyana on forecasts of future prices. They decided that what should be done, in undertaking the hazardous task of assessing the country's future competitiveness in this area, is to examine the price structure of both GUYSUCO and competing producers, in order to determine which producer, or which country, would have the competitive edge.

The results of this assessment, and the strategy formulated in the NDS for the future development of the sugar industry in Guyana, will be described in next week's summary series on Guyana's National Development Strategy. (Back to top)