Maryland Journal of International Law

Volume 3 | Issue 2 Article 9

# The 1977 International Sugar Agreement



Recommended Citation

*The 1977 International Sugar Agreement*, 3 Md. J. Int'l L. 405 (1978).
Available at: http://digitalcommons.law.umaryland.edu/mjil/vol3/iss2/9

# THE 1977 INTERNATIONAL SUGAR AGREEMENT

On October 7, 1977 the United Nations Sugar Conference adopted the 1977 International Sugar Agreement (Agreement). The Agreement will enter into force upon ratification or expressions of ratifications by 55% of exporter's votes and 65% of importer's votes.[1] Aimed at stabilizing the sugar market, the Agreement provides for export quotas and buffer stocks as a means of maintaining the price of sugar between 11 and 21 cents per pound. The Agreement is to extend for a period of five years, after which it may be further extended for a maximum period of two years.

The sugar market, due primarily to the inelastic demand for sugar and the concentration of production in only a few geographical areas, is characterized by instability. Crop failures result in unusually high prices, which, in turn, stimulate overproduction and a resulting price decrease and sugar surplus. Less developed countries, which produce cane sugar, have also been confronted by increased competition from beet sugar produced by more developed countries. The price fluctuations and increased sugar beet production are particularly harmful to those countries for which sugar is the sole or predominant crop, and to those countries which protect their sugar farmers by supporting the domestic price of sugar above the free market price.[2] By maintaining the price of sugar between 11 and 21 cents per pound, a price considered to be remunerative to producers as well as equitable to consumers, the Agreement attempts to avoid harmful price and supply fluctuations.

The Agreement, aimed at stabilizing international trade in sugar in the free market, does not apply to sugar traded under special arrangements. When the price falls into the lower part of the range, export quotas are enforced and special stocks are accumulated. The special stocks are then released when the price rises to the higher part of the range. A country's export quota and

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1. The Agreement, which has been ratified by the major importing and exporting countries including the United States, entered into force on January 1, 1978. The United States ratification however has not yet received Senate approval.

2. A more detailed discussion of the problems facing the sugar market can be found in Goldberg, *Prospects for an International Sugar Agreement*, 9 LAW & POL'Y IN INT'L BUS. 591 (1977), and Smith, *Sugar Markets in Disarray*, 9 J. OF WORLD TRADE L. 41 (1975).

stockpiling obligations are determined according to their Basic Export Tonnage (BET) which is allocated to members under Article 34 and Annex I and II of the Agreement.

BETs are allocated to members of the Agreement according to each country's productive capacity and the role which the export of sugar plays in its economy. To avoid a freezing of market shares, the Agreement provides for a renegotiation of BETs after two years. Should renegotiation fail, BETs will be reallocated with reference to each member's original BET and its export performance under the Agreement.

At the beginning of each year a global quota is established pursuant to Article 40 for the upcoming twelve month period. The global quota is then allocated to members in proportion to their BETs thereby delineating the member's export entitlement. Small sugar exporting nations, however, are not to have their export entitlement reduced below 70,000 tons. Furthermore, those small sugar exporting countries experiencing hardships may receive additional export entitlements.

The price stabilization scheme is provided for in Article 44 of the Agreement. Export quotas are enforced to support the price of sugar and to prevent it from falling below 11 cents per pound. When the price falls to 14 cents per pound, members may not export an amount in excess of their export entitlement. If the price continues to fall, export entitlements are further reduced until they reach 85% of BETs between 11.5 and 11 cents per pound. During the first two years of the Agreement export entitlements may be further reduced to 82.5% of BETs if the price remains below 11 cents per pound for 75 consecutive market days. As the price rises export entitlements are increased and all restrictions are lifted when the price reaches 15 cents per pound.

The floor price is also supported by the non-redistribution of shortfalls and the imposition of import restrictions. A shortfall, which is created when a country fails to export the full amount of its export entitlement, is only redistributed if the price exceeds 12 cents per pound. When the price falls below 11 cents per pound, members are required to impose restrictions on imports from nonmembers.

The ceiling price is supported by the special stock arrangement. The maximum level of special stocks is 2.5 million tons (approximately $\frac{1}{5}$ of the total projected exports by members to the free market during 1978), and is apportioned to members according to their BETs. Small sugar exporting members may hold special stocks. Special stocks, which are only to be accumulated when the export quota is in effect, may be accumulated over a 36 month period. Members are required to accumulate 40% of their stocks within the first 12 months in which export quotas are in effect, 80% within the first 24 months and 100% within the first 36 months. As the price rises to the upper part of the price range the special stocks are released for export. They are released in three equal amounts as the price reaches 19, 20, and 21 cents per pound.

In order to help members bear the cost of holding special stocks the Agreement provides for the establishment of a sugar stock financing fund from which interest free loans can be obtained. The fund is to be financed by contributions of .28 cents per pound exported or imported into member countries, with an exemption on sugar imported into a less developed country if the sugar is to be used for internal consumption. The loans are required to be repaid within 90 days of the release of the sugar stocks.

Upon termination of the Agreement contributions to the fund will cease to be due and outstanding loans will not be subject to repayment. The remaining assets and liabilities will be apportioned among the members.

*Joseph John Dyer*