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Guyana, Sugar and EBA: Case-study of a country which is not quite Least Developed

by

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1. Introduction: Guyana – or India

Every paper, even about regulation at the global level, given less than a month after the enormous loss of innocent life on 11th September, deserves to start with a moment's — possibly silent — reflection.

In this case, the minute will be used to reflect not just that the 5000 who died in and around New York's World Trade Center Towers are still a fraction of the 800,000 who died in the 1994 Rwanda genocide (neither figure is presented with any strong claim to accuracy), but that among those 5000-odd dead or unaccounted for were *fifteen Guyanese*.[1] Now the population of Guyana is 863,000[2], and although many Guyanese live overseas, it could be claimed that with those fifteen (likely) deaths, Guyana lost a higher share of its population than the United States or Britain, who lost maybe 4000 and 200 persons respectively, and possibly more than any other country. So how is it that so many Guyanese seemed to be working as, or for, New York stockbrokers and international financiers? Why is it that a country exports so many of its best, and best-trained people? Why do more Guyanese live in the New York borough of Queens, in the Toronto suburb of Scarborough, Ontario, and in the borough of Tottenham, London[3], than in Greater Georgetown, Guyana? And why cannot a country so potentially rich that the first European adventurers called it El Dorado attract its diaspora back to redevelop its economy?

Many of the answers to these human and social questions are primarily political. Guyana was blessed with one of the worst governments in the world — arguably with Haiti — in the 1970s and early 1980s. Even today, with increasing efforts at reform, its society is still more violently racially divided than, say, Fiji's or South Africa's. Every forty- or fifty-year-old Guyanese remembers a time when she or he felt more prosperous and when children were better-educated. And Guyana is the only country on the mainland of the western hemisphere

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[1] *New York Times*, 18 September 2001

[2] World Bank (2001) *World Development Report 2002*. Washing DC: World Bank.

[3] Tottenham is already onto its second Guyanese Member of Parliament. The first, Bernie Grant, continued to complain of CIA plots right up to his death in 1999, perhaps reflecting British Guiana's difficult transition to independence in the 1960s. The second, David Lammy, who is British — and more recently — born, could be offered a quite senior job in the Blair government over the next four years — he is already a junior minister at age 29.

(with Suriname and Belize) which is neither Latin nor American: yet — as this paper will also show — it shares few common interests with the islands which constitute CARICOM (and for which it hosts the headquarters): in the longer run, it might have a stronger affinity with Canada, the FTAA, and its big neighbour, Brazil.

But we have already encroached on the economic (and regulatory) domain, the main element of this paper. Guyana is an old-economy country with not much electricity, hardly any computers and no significant international service industries (in banking and tourism, even the Turks and Caicos Islands or the Caymans are way ahead: few financiers would trust communications with Guyanese banks, while despite Guyana's rich, natural beauty and species diversity, almost no tourists come because of the threat of violence and the total absence of beaches and cruise-ship moorings). Guyana produces and exports sugar-cane (for UK aka EU refining), rice (regionally), bauxite and precious minerals (internationally) and tropical hardwoods (strategically — the piles under the New York Port Authority alongside the World Trade Center are made of Guyanese greenheart and redheart). It is however neither a banana republic nor a banana island.

Above all, Guyana is a poor country. The World Bank (2001)[4] gives its per capita income at US$770 in 2000. This was after ten years of uninterrupted growth, mostly in the range 5-8% per year. The cut-off point for the designation 'Low Income Countries' is $755 per annum — in other words Guyanese, after a decade of good governance and economic reform are just fifteen dollars per year above the low-income category. For this and other reasons, notably the tradition of a strong educational system which no longer applies but which bequeaths high levels of literacy (as well as strong argumentation), Guyana is not designated a Least Developed Country (LDC), either.

A few years ago this would not have mattered, but in today's regulatory framework it does. Maybe even then it could be argued that Guyana (and those 863,000 Guyanese) do not really matter: after all, they could have been Rwandans: gone. But Guyana can also be the Leitmotiv for other bigger, more important countries one notch above but excluded from this charmed circle of forty-nine countries the UN-designated, but WTO- and EU-adopted category of Least Developed, such as India and Pakistan. And in the new regulatory order

[4] World Bank (2001) *Ibid*.

that is bound to succeed 11 September, do we really expect the big powers to accept favouring Vanuatu (an LDC) with trade preferences and easier WTO compliance terms and periods over a poorer, more needy and more strategic country in South Asia? Will they be happy allowing Senegal to relegate itself to LDC status in order to maintain preferences while a country under the Monroe Doctrine which (perhaps unwisely) invested in all the industrial, farming and drainage infrastructure to continue exporting sugar and rice gets even poorer with the withdrawal or phasing-out of protocol-related preferences in all its main markets? Do we seriously expect G. W. Bush (soon to strike a deal with Congress giving him Trade Promotion Authority, i.e. new-mode fast-track negotiating powers) to emulate EU Commissioner, Pascal Lamy (and its equally-European originator, Renato Ruggiero, now Berlusconi's Foreign Minister) and declare 'Everything But Arms' (EBA) duty- and quota-free access for all (or even for 'essentially all') imports from the LDCs and not do as much for India, Pakistan and the Americas if he so see fit? He is more likely to return to genuine most favoured nation (mfn) treatment or — the subject of a companion paper at this workshop by Sheila Page — resort to regionalism.[5]

2. Thumbnail sketch of Guyana

A few salient facts are necessary for an appreciation for the process analysis which follows. Guyana is a former British colony in South America which gained independence thirty-five years ago. Culturally and economically, however, it faces the Caribbean; it is a member of, and currently houses the headquarters of CARICOM. It has a population of 850,000, almost all crammed into a narrow coastal strip, behind dykes: beyond that lies the enormous potential wealth of the country in the form of the fresh water, forests, and minerals. However large numbers of Guyanese live abroad (in Canada, the USA, the Caribbean islands and the UK) and while the 1980s in particular was a decade of emigrations, few successful expatriate Guyanese professionals have been enticed back in the 1990s: Guyana is now the third-poorest country in the western hemisphere (after Haiti and Nicaragua), with a per capita income of about US$750. Worse than just being a poor country, it bears all the marks of a country once

[5] Views on regionalism are gradually maturing. Even if the regions themselves make little sense (though the ACP and the LDCs could lay claim to being 'anti-regions' rather than regions-in-a-post-modern-sense), regionalism may be a plausible second-best if multilateralism (i.e. MFN or GSP) is no longer possible, and if the real alternative was what G. W. Bush was accused of in his first eight months: unilateralism.

having been rich, well within the lifetime of many of its inhabitants. It is difficult for older Guyanese not to feel demoralised when they reflect that they enjoyed a better education than what is offered to their children; or to be affronted by the thought that less well-endowed Caribbean countries which still grow sugar but are short of labour, like St Kitts, import Guyanese cane-cutters at basic wages for the season.

However, Guyanese society is strongly fragmented along racial lines. Moreover, these racial fault-lines now run through political parties and the institutions of state as well as society. For instance, the army and the police are predominantly Afro-Guyanese: thus an incoming Indo-Guyanese President such as Cheddi Jagan in 1992, elected primarily by Indo-Guyanese voters as the head of the PPP party must have had at least some qualms about security, however much he wished to run a non-racial government and to transform the mind-set of the nation. Similarly, most of the civil servants are Afro-Guyanese: how easy it is then for a new government to turn around the ship of state to adopt and implement new polices? They cannot and should not be replaced overnight, but any public service strike (as occurred against the President Janet Jagan in mid –1999 just before her resignation) is immediately deemed to have racial overtones, however persuasive the claims on wages and conditions are. Conversely, when the majority of farmers and rural dwellers are Indo-Guyanese, any policy regarding agricultural subsidy or agro-industrial privatisation involving job shedding will tend to be support or resisted along racial and party lines, rendering the task of government doubly difficult — a feature not always uppermost in the mind of creditors imposing policy-based lending programmes. Moreover, racial consciousness is so deeply entrenched in society that it even applies retrospectively: it was the PNC Government of Despond Hoyte (1986-92) which started the economic reforms which led to Guyana's recovery in the 1990s, but because the members of the government are associated through the Afro-Guyanese-dominated PNC with the earlier repressive Burnham governments, they receive little credit for their reforms. Somewhat perversely, both PNC and PPP parties and governments have claimed to be Marxist in their time — further narrowing the choice offered to voters (though for many years there were no free elections).

For an outsider it is easy to prescribe solutions: constitutional reform, a strong centrist (non-racial) political party, and positive inducements to operate the machinery of government and

to lead one's life along non-radical lines. These have been tried, and are being tried again currently.

How far should we delve back into history in the quest for relevance? Slavery was abolished in 1838 and the 'plantocracy' resisted giving higher wages to Africans so over the next eighty years they imported a quarter of million (East) Indians. American Indians long preceded the European settlers and planters, let alone the Africans, in their claim to be original Guyanese. History did not determine that Guyana after independence should become an increasingly ethnically divided society, but in coping with the results of that process, and its implications for securing a national consensus, it is useful to know the events from which those divisions occurred and how more recently the political parties exploited them.

Cheddi Jagan and Forbes Burnham, both future presidents of the republic, avowed enemies, leaders of PPP and PNC parties respectively and both at some stage leaders of declaredly Marxist governments, had come together in 1953 to form a single PPP party to fight for independence. Not in itself evidence of deeply entrenched political splits.

Thirty years ago, Guyana's school children were at the top of the Caribbean's regional examinations. They are now at the bottom, just as the Guyana economy has fallen from being among the richest to the poorest in Caricom. UNDP ranks Guyana 103rd in the human developing index 1997, again the lowest ranking in Caricom, and if it were not for its stock of high literacy levels from an earlier age, Guyana would qualify on other indicators as a LDC (and acquire trade and aid concessions accordingly). Is this proof that Guyana can bounce back? Five years of consistent 7% annual GDP growth after the 1992 elections may indicate the way forward, but the down turn in 1998 meant that the easy phase of catch-up growth was over, and the hard political and social choices still have to be made. Nonetheless, it is useful to know that there were times when Guyana's vast potential was being realised, to see how this could be achieved again.

Fourthly, some donors carry additional baggage from history, as well as their current commercial, strategic and development interests. The Dutch first settled, the UK was the former colonial power and the US has hemispheric interests, and felt these particularly from the early 1960s experience with Cuba. Thus is it useful to bear in mind key features of UK and US intervention during the Cold War period.

For instance, in 1953, Cheddi Jagan's first premiership, leading an elected PPP administration arguing for independence, lasted 133 days, until the British sent a gunboat to remove him.

Jagan led other pre-independence governments between 1957 and 1964. After winning the 1961 elections (which were supposed to be the precursors to independence two years later) the US too became concerned about his praise for Cuba and adherence to Marxism. From the US Freedom for Information Act we now know that no only did the CIA operate through local groups to stir up a general strike, but also that President Kennedy asked the UK government to change the voting system in British Guiana to proportional representation so as to unseat Jagan. This the UK Colonial Secretary, Duncan Sandys, eventually did; Harold Wilson's incoming Labour government considered but did not reverse this in time for the December 1964 elections, which Forbes Burnham's PNC (in coalition with a business party) duly won. Cheddi Jagan felt betrayed, boycotted Parliament and the constitutional conference (mirroring the 1990's boycotts of parliament and of the NDS by the PNC leader); this experience helped to entrench the ethnic divide among the parties, with Indo-Guyana particularly disappointed that their PPP leader was not to become the first leader of independent Guyana. Instead it was the PNC's Forbes Burnham to whom independence was granted, during a state of emergency, in 1966. With the overt support of Afro-Guyanese who dominated the army, the police and the civil service, Burnham and the PNC expelled their (United Front) coalition partners, declared a republic, and arranged to stay in power without the trouble of free and fair elections for the next twenty-six years. It was during these three decades (1960-1990, or particularly up to the Hoyte government of 1986) that the strong identification between race and party was entrenched, making even the conduct of free and fair elections — as in the 1990s — hazardous, and adding to the pressure for constitutional reform.

In 1976, the Burnham government nationalised (and effectively expropriated) the British sugar company, Bookers. This was a far more symbolic act: sugar was at the time, with bauxite, the heart of the Guyana economy. It had enormous employment implications — so much so that Jagan was persuaded to end his political boycott and give 'critical support' of the PPP to the nationalisation. It was an act which looked back to the period of slavery,

across to the idea of Guyanese society being divided into ethnic castes (with the European owner-managers of Bookers ranking highest) and forward to the current questions of privatisation and the role of foreign private investment which still bedevil politics and render them vulnerable to eventual rejection by the Cabinet.

A mere two years later, the PNC government promised no more nationalisations. Burnham advanced the idea of 'state capitalism' and in 1978 received a major IMF loan. By the 1978-79 financial year, Guyana's US aid per capita was among the highest in the world. After further rigged elections in 1980 (which went largely unchallenged during the Cold War), the period 1980-1985 became characterised as the 'Fascisisation of the State' (in the term of Professor Clive Thomas), but the whole decade 1975-85 has to be seen as a time of terror under an authoritarian government: the racial divides were so operationally entrenched that the (predominantly Indo-Guyanese) farmers could sabotage what remained of the productive economy by their actions; the civil servants and the security forces (predominantly Afro-Guyanese) could hold the state to ransom in their own short-term interests; while, by rigging elections, the PNC effectively disenfranchised everyone. One distinguished leader of non-racial party, Dr Walter Rodney of the WPA, was assassinated, presumably by the PNC, in 1980. It was during this period that Guyana became a country of emigration. Nowadays, the largest Guyanese communities are in Queens, New York; Scarborough, Ontario; and only thirdly Georgetown, Guyana. Even after sever years of economic recovery, it is proving almost impossible to entice these valuable mid-career emigrants home. It was only very late in the process that donor support was withheld, despite deviations and atrocities which would not be tolerated under today's good governance guidelines.

Conversely, the PNC successor government of Desmond Hoyte (1986-92) while securing IMF and World Bank support in 1988-89 felt it was not accorded proportionate justice from the UK and the US as donors when they suspended aid in the run-up to the 1992 elections. The PNC under Hoyte felt they deserved recognition for the fact that they had disavowed state socialism and introduced economic reforms (which were to be the basis for Guyana's economic recovery in 1992-97). The donors, however, quite properly objected to their prevaricating over the holding of free elections and withheld aid as a means of testing their resolve.

Add to this the involvement of former President Carter during 1990-92 in obliging Hoyte to agree to elections that he was bound to lose and then establishing a strong relationship with newly-elected President Cheddi Jagan (whose wife, the PPP politician and future president Janet Jagan was from Chicago, Illinois; she was later succeeded by the present president, Bharrat Jagdeo) and one can see how donor involvement did not always appear value-free (but often, rather quixotic and bereft of ideology) to Guyana's political leaders, and also how an opposition party will always tend to be suspicious of foreign involvement with government. Lastly, these clips from history may succeed in giving a flavour of how politically and ethnically divided (and with substantial congruence of voting patterns) Guyanese society is.

However, one last development. In August 1999, Janet Jagan (the wife of ex President Cheddi Jagan, whose presidency continued to be contested by the PNC opposition) stepped down from office on the grounds of ill health but after a testing public services strike, and Finance Minister Jagdeo was sworn in as President — at 35, the youngest President in the western hemisphere and half the age of his two predecessors. *The Economist* devoted 100 words to his appointment; two of them were 'Moscow-educated', although he has proved to be a strong reformer.

3. Sugar and Guyana

Sugar is perhaps the least efficiently regulated industry in the world. It is a substance which enters nearly every manufactured food we consume and is also an energy source. Every since the Napoleonic Wars, it is perfectly substitutable as between cane and beet, in other words even before the end of slavery, tropical producers had lost their natural absolute advantage to temperate zone competitors (and their subsidies), though they could continue to work on their comparative advantage, at least until bilateral arrangements (US-Cuba/Philippines, UK-Caribbean, then the Commonwealth Sugar Agreement which in 1975 spawned the successor arrangement with the EC, the Sugar Protocol for some ACP countries, plus India, attached to the Lomé Convention which, though ' of indefinite duration' is now being terminated over the next seven years) parcelled up the market. This resulted in the free market for sugar becoming a small residual (below 20% of world trade). As a result, the 'world' price can fluctuate wildly. A quarter of a century ago, in 1974 when the Sugar Protocol was being

prepared for signature, there was a commodity shortage and prices were high; a year ago, sugar was trading at 6 US cents per pound, a level at which not even the most efficient producers (Thailand and perhaps Australia) could reasonably produce the crop, or invest in the future. Nowadays, both the residual ('world') price and the preferential (Sugar Protocol) price is influenced by EU Common Agricultural Policy decisions (and the US equivalent, mutatis mutandis) on domestic pricing and on surplus disposal. By the time a country like Guyana enjoys no preferential allocation, it will long since need to have adopted its production and marketing to suit a world market which ought by then to be multilaterally regulated in a post-Marrakesh world. Unlike most of its island CARICOM fellows, such as St Kitts, Barbados, Trinidad and Tobago and Jamaica, Guyana could probably make itself competitive in sugar (and rice) by this time (see Annex I).

However, what the planners, the Sugar Protocol beneficiaries and the ACP Group as a whole had not taken into account was the introduction in early 2001 of the EU's 'Everything But Arms' proposal and its solidification internationally into a new tier of WTO-compliant preferences for the LDCs. This hits particularly hard those ACP countries (exactly half of them) which are not Least Developed, with Guyana being among the poorest within this set which include Kenya, Ghana and Zimbabwe; and those ACP countries which had hitherto been encouraged, by special preferences, to keep producing export commodities (Guyana too is in the front line here, though far from being the exception to the rule: of the over seventy ACP countries, only one or two, Mauritius and the Bahamas, have successfully graduated out of this basic role) because the time-scale for adjustment from preferential agricultural commodity-producer status is now suddenly switched from seven years to none: the first special and differential allowances for LCD ACP sugar producers such as Mozambique are already being issued this year, eating into Guyana's assumed protected market; and of course the investors in the Mozambican sugar plantations include Mauritian financiers themselves.

4. EBA and a new tier of Least Developed Countries enjoying SDT

Successive GATT Rounds up to and including the Uruguay Round have introduced a better regulatory framework for world trade but above all their crowning achievement is to have progressively reduced tariffs. Derogations from the mfn principle have been relatively few: the Generalised System of Preference worked from the 1970s precisely because the GATT members, with UNCTAD, ensured that preferences really were generalised to *all* developing

countries (initially it was even to all countries electing to call themselves developing countries). The developmental downside of this of course was that like the GATT-MTNs themselves, this resulted in preferences benefiting the more dynamic developing countries (Korea, Hong Kong, Singapore and Yugoslavia were early major beneficiaries of GSP)[6] and so trade, or trade preferences, was not seen to be an instrument for reaching the poorest or for redistributing global income. However, special preferential schemes (which required waivers from GATT rules) worked far less well, with the 25-year experience of the Lomé Convention, 1975-2000, being contemporaneous with a slow collapse in ACP trade.

Marrakesh and the creation of the WTO however marked a change. While it was widely assumed that old-style special preferences would no longer secure a waiver (now annually required), the corollary that most favoured nation treatment should rule throughout, and income distribution questions be addressed by other instruments, did not in the end apply. Perhaps as a result of pressure from aid interests (i.e. official donors and the World Bank) and the need for more effective and more rapid debt relief (from civil society movements) — neither of which are properly trade/regulating phenomena, of course — at the Singapore December 1996 ministerials immediately after Marrakesh, the WTO adopted a UN aid grouping called the Least Developed Countries as a new tier of countries to enjoy autonomous preferences from 'trade-donors'.

For decades the LDCs had been a Cinderella-grouping within the UN system, enjoying aid privileges, only a few marginal extra trade concessions and a generally worsening economic performance. Two points perhaps best illustrate this near-basket-case syndrome. Only one country, Botswana, has ever graduated out of LDC status, whereas many are relegated; some now campaign, national self-esteem notwithstanding, to get the UN ECOSOC to include them; and those destined to leave, e.g. high-income islands and brass-plate economies like the Maldives and Vanuatu, continue successfully to postpone that day to the Greek Kalends. Secondly, for four years running in the late 1980s, I edited with Pushkar Pant and Helena Wegener the annual UNCTAD Report on the Least Developed Countries. Its appearance rarely stimulated any interest, press or actual, least of all from the countries themselves. This was a group which itself seemed a residual and going nowhere; chosen for aid purposes; and

[6] See Vincent Cable, Anne Walsh and Adrian Hewitt (1982) *The EEC's Generalised System of Preferences*. London: Overseas Development Institute.

yet adopted, late in the day, for trade preference treatment. At Singapore there were seemingly pious expressions from Europe and America that we should, and would, open up our industrial and agricultural markets just to this group of least developed (not poorest) countries. It seemed innocuous because India and Brazil were not included and nobody felt threatened (they could invent surge-limiters in their autonomous offers if so).

Things got real when in 2000 within weeks of the signing of the Cotonou Convention on economic partnerships with the ACP states, another part of the European Commission led by Pascal Lamy introduced, and in early 2001 finally got approval from the European General (i.e. foreign) Affairs Council to introduce EBA: duty- and quota-free access to all products (not, in the end 'essentially all') originating from LDCs, except arms and munitions.

There were controversies[7] before the EBA measures were approved, not least from the ACP themselves who felt that they as a Group had not been consulted, as their EC-ACP Convention guaranteed (although the matter was raised a marginal EC-ACP parliamentary assembly in October 2000), and the strongest lobby opposing the reform came from sugar interests. It was obvious that cane-sugar exporters enjoying traditional preferences, like Guyana, would lose out (unless classified as LDCs) but in fact the strongest lobby came from the beet producers of East Anglia, Northern France and Belgium, who saw their interests threatened. As a result, on three products — sugar, rice and bananas — the EBA measures are being phased in over up to eight years; but to all intents and purposes, EBA starts this year for LDCs exporting to the EU, and at Seattle the EU undertook to persuade its Quad fellows (USA, Canada and Japan) to do likewise.

Would this help development (and income distribution) if they succeeded? On balance probably not, because the LDCs are singularly ill-chosen to act as a trade grouping, regardless of the familiar arguments about the effectiveness of autonomous preferences which may only be awarded annually and can rapidly be withdrawn: presumably increased trade is supposed to stimulate long-term rather than footloose investment. In any case, it seems unlikely today that the USA will throw in its lot with a group whose (alphabetically) first member is Afghanistan, followed shortly thereafter by Burma/Myanmar, but which

excludes India and Pakistan and the entire western hemisphere bar Haiti and Nicaragua. Since a new tier of preference-receivers is not just a derogation from mfn, but also an act of discrimination, this is clearly not the way some will discriminate.

But by creating a preferred group, the EU is also using trade policy to discriminate against those *not* preferred (which could be those within its quasi-bilateral agreements, Cotonou/REPAs, as well as outside). Worst hit will be those countries (a) just above the LDC level and (b) which enjoy traditional trade privileges, preferences and trade patterns with the EU which are fast expiring. Poor commodity-exporters like Guyana thus find their trading world transformed in the matter of months — and barely a few months after signing up at Cotonou and receiving encouragement at Seattle.

Such adverse changes will oblige countries to act. Already Guyana has in 2001 created a national Foreign Trade and International Cooperation Ministry under Clement Roopchand where none existed before; recognising their difference form the banana-producing, financial-services-and-tourism dominated islands of CARICOM, they are distancing themselves from the Regional Negotiating Machinery where it serves their purpose so to do. With other ACP states, Guyana has ensured a much longer phase-in for sugar and rice EBA concessions. It will also accelerate its sugar industry reforms, though the social, political and financial consequences of so doing are extremely delicate.

One final, broader question, is whether EBA follows the law of unintended consequences, perhaps also signalling weaknesses in the development as opposed to the trade side of the Commission (development and external affairs were being entirely revamped at the time), and failures to consult and communicate between arms of the Commission ,and between the Commission and the Council; or whether it was introduced knowingly to drive an entering wedge through the middle of the ACP (they split almost exactly half-and-half between LDCs and non-LDCs) and through the middle of the G77 (with 49 LDCs, and the removal of several former members to OECD status and China standing outside, they are about at numerical parity, though not economic weight, with the other developing countries).

[7] Including from the present author letters in the *Finacial Times*, articles in the *Guyana Chronicle* and, with Sheila Page, submission to various Parliamentary Committees.

I put this question, more in sorrow than in anger, more about the Ruggiero initiative as at Singapore December 1996 than about EBA itself, to the Director of Development of the WTO this summer. I was firmly advised not to believe in conspiracy for that would be too complex, but to put it down once again to the cock-up theory of history. Be that as it may, if EBA works and obliges others to emulate it, maybe at some time in the future we shall no longer need to write about the LDCs as a group. But don't hold your breath.

Annex I Guyana: Sugar

A. Principal Characteristics of the Guyana Sugar Industry

Accounting for approximately twenty per cent of gross domestic product and sixty per cent of gross agricultural product, the sugar industry continues to dominate the agricultural sector, although its relative size has diminished slightly with the rapid growth in the rice industry during the last decade. Production and processing are controlled almost entirely by the Guyana Sugar Corporation (GUYSUCO), a publicly owned company. About ninety per cent of the sugar cane processed by GUYSUCO is produced on the company's estates, while the remainder is purchased directly from private farmers. All production of sugar from cane is controlled by GUYSUCO. In addition to its dominant position in the agricultural sector, the industry plays a pivotal role in the wider economy. GUYSUCO employs 21,000 persons (approximately 17 per cent of the workforce), while an estimated additional 8,000 are employed in linkage activities. The sugar industry is also the largest net contributor to foreign exchange and in 1996 accounted for 27 per cent of Guyana's export earnings.

Guyana embarked upon an IMF structural adjustment programme in 1989. The pre-adjustment period from 1986-88 had seen a steadily declining performance in the sugar industry, applying to harvested acreage, total output (both of cane and sugar), exports and all three recorded indices of productivity discussed below, representing field level, factory level and overall industry productivity. In 1991, this deterioration was arrested and the period 1990-96 has exhibited a gradual trend of improving performance, both from the point of view of production and productivity.

The decline of the industry in the late 1980s can be attributed primarily to inappropriate government policies. During the 1970s and 1980s, total exports from Guyana declined at an average rate of 2.8 per cent per annum. The government's policy responses to the growing structural imbalances, particularly in the current account, were to limit the domestic currency price of imported items by artificially maintaining an over-valued exchange rate, and to impose stringent prohibitions and quantitative and tariff barriers on imported items. The effect of overvaluation was to restrict the domestic currency value of exports (which had always accounted for the bulk of total sugar production). Since a very high proportion of the operating budget was (and still is) accounted for by labour costs, which were denominated in domestic

currency, the policy undermined the company's ability to maintain an adequate workforce, particularly at managerial level. The period witnessed a decline in labour participation (including a loss in management personnel) and increased labour unrest, largely in response to declining compensation rates.

From the point of view capital investment, the situation was exacerbated by restrictions on the proportion of export earnings which GUYSUCO could retain as foreign exchange. (Retaining revenue as foreign exchange would have enabled the company to defend the purchasing power of its revenues to a greater extent). The exchange rate regime also created a dual foreign currency market, in which goods were exported at the official (overvalued) rate, but limited imported agricultural inputs could be financed at a parallel exchange rate which better reflected the true (higher) value of foreign exchange in domestic currency terms. GUYSUCO was frequently denied access even to the parallel foreign exchange market for purposes of importing capital equipment. The industry therefore experienced a profound deterioration of infrastructure and rapid decapitalisation in the late eighties.

Against this background, the most significant element of structural adjustment from the point of view of the sugar industry was the establishment of a floating exchange rate, which led to a rapid depreciation of the Guyana dollar in 1991. Table I.1 and Figure I.1 show the impact of the devaluation on the domestic currency value of GUYSUCO's export earnings. The operating budget in domestic currency terms therefore increased sharply during 1991 and 1992, allowing the company far greater manoeuvrability form the point of view of enlarging and enhancing the workforce. Thus, between 1990 and 1991, employment costs increased by 175 per cent.[8] The new market based exchange rate also allowed the transmission of powerful investment signals from high preferential sugar prices to the domestic economy. This aspect is developed below.

[8] Guyana Sugar Corporation (GUYSUCO), Annual Report and Accounts, 1996

Table I.1: Volume and Value of Exports and the Exchange Rate, 1989-95

Year	Sugar Exports (long tons)	Sugar Exports[1] (G$ millions)	Exchange rate at year end [9]	Sugar exports (at exchange
1989	160,979	2,309.76	33.00	69.99
1990	129,767	3,265.80	45.00	72.57
1991	159,430	11,973.90	122.75	97.55
1992	232,711	15,965.00	126.00	126.71
1993	219,093	14,971.88	130.00	115.17
1994	235,654	16,812.36	142.50	117.98
1995	221,870	18,310.18	140.50	130.32
1996	251,503	21,920.00		

The liberalisation programme also eliminated most import prohibitions and quantitative restrictions, while non-quantitative trade barriers were reduced and rationalised. These policies, in tandem with the industry's foreign exchange earnings growth, greatly improved GUYSUCO's access to capital equipment and allowed it to begin rehabilitating infrastructure. From 1991, productivity, as measured by the three indices of yield discussed below, began to increase consistently.

B. Preferential Sugar Export Arrangements

More than 90 per cent of Guyana's total raw sugar production is exported and over 95 per cent of these exports are sold under preferential arrangements with the EU and US. Any surplus over and above the preferential quotas is sold within CARICOM where prices are still 20-40 per cent above the world price. Guyana has not sold on the world market for several years. Although the company does not plan to produce for the world market, world market sales have been made in the past, primarily to Canada. It is used solely as a means of obtaining some recompense for unutilised output, however, since the prices obtained do not cover production costs. (See below).

[9] Bank of Guyana (Research Department) Banking System Statistical Abstract, April, 1997

i. EU Markets: Sugar Protocol and Special Preferences Sugar

From the point of view of Guyana's total sugar export earnings, the Sugar Protocol (SP) provides the most significant market. It was established in 1975 to allow the EU to purchase and import, at guaranteed prices (set yearly), specific quantities of cane sugar, raw or white, originating in ACP states capable of producing and exporting. The country quotas total approximately 1.4 million tons and ACP countries are permitted to import sugar for domestic purposes if their surplus in a year is insufficient to fulfil the quota. Exports from quota holders receive a price lying within the range of prices guaranteed to beet sugar producers within the EU under the Common Agricultural Policy (CAP). Guyana's SP quota of 165,000 metric tonnes (mt) white sugar equivalent (corresponding to approximately 170,000mt of cane sugar) is the third largest of all ACP sugar quotas, after Mauritius and Fiji.

Table I.2: Sugar Export Market Prices 1994-96[10]

Market	Average Price (US$/metric tonne)		
	1994	1995	1996[11]
EU (SP quota)	610.0	653.0	640
EU (SPS quota)	-	550.0	540
USA (quota)	428.2	339.8	440
CARICOM	312.0	345.0	340
World Market	254.0	280.0	240

Additional preferential access was granted to ACP SP quota holders on July 1, 1995 for a six year period under the Special Preferences Sugar (SPS) quota. The quota varies from year to year but is presently about 290,000 mt, of which Guyana's basic annual quota for 1995-96 was

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[10] *Op cit*. Bank of Guyana (1996)

[11] United States Department of Agriculture (USDA), Attache Report, (type: Annual Report), Guyana Sugar Production, March, 1997, Washington.

30,000 mt, a relatively large share of the total quota. This was subsequently increased to 53,000 mt after reallocation of unutilised quotas in Mauritius and Barbados. The quota is projected at 41,056mt for 1998. As with the SP, importers are obliged to pay a pre-determined price for the imports, set at 85 per cent of the SP prices. In contrast to the SP, however, SPS exports do not enter the EU duty free but are subject to a highly preferential duty rate of 69 ECU per mt. (For purposes of comparison, the base mfn duty rate applied in the EU's schedule of Uruguay Round commitments under the Agreement on Agriculture is 524 ECU per mt).

In 1995, sugar exports into Europe under the SP and SPS quotas accounted for some 76 per cent of the total. Table 5 demonstrates the considerable differential which exists between the preferential prices in Europe and "world" prices: well in excess of 100 per cent in both markets. In terms of free on board (FOB) January, 1997 Georgetown prices, the SP quota offers about US cents 30-31/pound; the SPS quota offers US cents 25/ pound, while the world market offers only US cents 10-12/pound.[12] [13] Since the SP prices are based upon domestic prices obtaining in the EU under the CAP and the SPS prices are, in turn, defined in terms of SP prices, both markets are clearly highly dependent upon the CAP for the economic rents appropriated by the SP / SPS quota holders. Since 1986, there has been no upward trend in the nominal prices arising in the SP, so that real prices have, in fact been steadily decreasing in real terms for over a decade. The relationship between the ACP sugar export arrangements and the CAP is discussed further in Section C below.

ii. USA Preferential Quota

As Table I.2 shows, the US preferential market (under the Sugar Import Tariff Quota) is of much less significance, in terms of overall export earnings, than the EU quotas. The prices are also lower, with an FOB Georgetown price of about US cents 20/pound. The total quota amounts to 2.3 million metric tons (raw value), allocated among forty countries. Guyana's present quota is relatively large within the Caribbean region at 24,310 tons as of August, 1997 (the quotas are revised frequently according to the stocks-to-use ratio for sugar monitored by the US Department of Agriculture). Considering the FOB prices quoted above and the relative sizes

[12] Presentation by Booker Sugar Company Ltd. to GUYSUCO, Management Training Centre, Ogle Estate, January 23, 1997.

[13] It needs to be borne in mind, however, that, given the degree of intervention in the world sugar trade (whose net effect is to depress prices), the 'world' price actually understates that which would result if the trade in sugar substantially liberalised.

of the quotas, the EU markets combined are nearly twelve times as large as the US market.

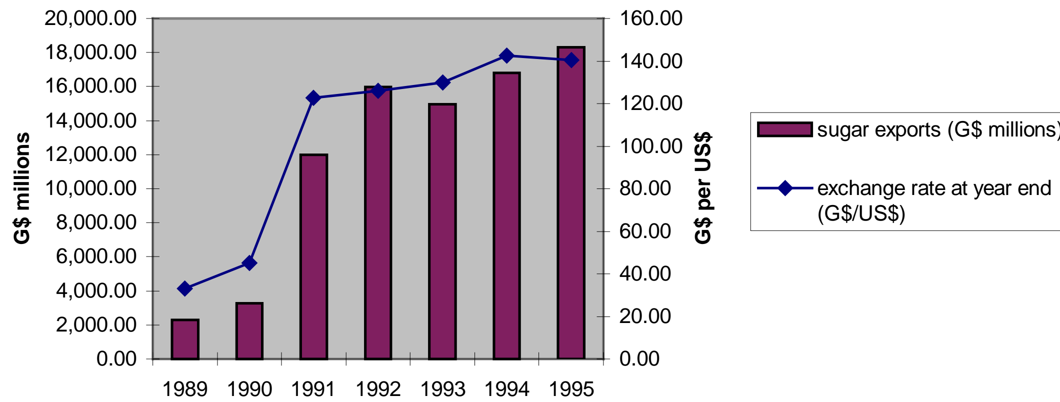


Figure I.1: Sugar Exports and the Exchange Rate, 1989-95

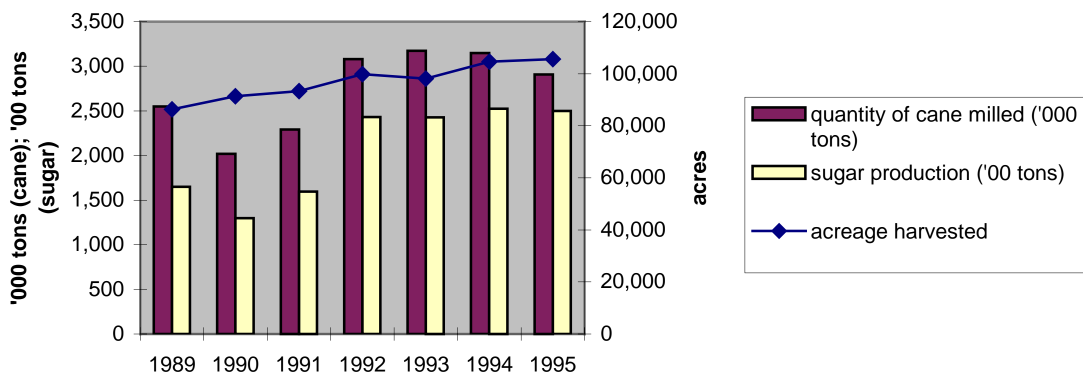


Figure I.2: Cane and Sugar Production and Acreage under Cane Cultivation, 1989-95

C. Structural Trends in the Sugar Industry

i. Acreage and Production

Table I.3 shows how acreage under cane cultivation, cane production and sugar production have varied over the period 1989-95.

- The industry has expanded significantly since the post-adjustment turning point in 1990, according to all three indices.

- Expansion was rapid in 1991-92 and then appears to have diminished in years 1993-96. In fact, cultivated acreage and cane production had been quite static in this sub-period, but the quantity of sugar production rose marginally because of improving yields in terms of the cane: sugar ratio (discussed below).

Table I.3: Production of cane, sugar and acreage harvested, 1989-97[14]

Year	Quantity of cane milled	Production of sugar	Acreage of cane
1989	2,548	1648.0	86,303
1990	2,019	1299.20	91,372
1991	2,293	1596.90	93,307
1992	3,081	2430.10	99,891
1993	3,172	2426.40	98,142
1994	3,149	2526.15	104,670
1995	2,909	2498.40	105,586
[15]1996	3,172	2757.04	96,592

ii. Yields and Costs

a. Agricultural and Factory Productivity

Table I.4 and Figures I.3 and I.4 illustrate the behaviour of three indices of yield in sugar production: tons of cane per acre, as an index of agricultural level productivity, tons of sugar / tons of cane as an index of factory level productivity and tons of sugar per acre as an index of overall productivity in the industry.

- Land productivity in sugar production increased steadily for the first three years after the turning point in 1991. It then declined for the latter two years of the period before recovering gain in the final year.

[14] *Op cit*. GUYSUCO (1996)

[15] 1996-97 data taken from USDA, Attache report: *Guyana Sugar Production Sours in 1998,* Washington, June, 1998.

- Factory level productivity on the other hand, has risen more consistently over the period (after the turning point in 1991), with a decline on the previous year only in 1993. The increasing factory level productivity has prevented overall production from declining appreciably (Figure I.3) in periods where field productivity has fallen.

- Despite dramatic cost increases (particularly on employment), the overall sugar yield per acre, after improving greatly between 1990 and 1992, appeared to plateau thereafter until 1996, and even declined marginally during 1993-95, because of declining agricultural yields. The implications of yields in relation to costs in the context of future preferential agreements and prices are discussed in detail below.

Table I.4: Factory yield (tons of sugar per ton of cane) agricultural yield (tons of cane per acre) and overall industry yield, 1989-92[16]

Year	Tons of sugar per ton	Tons of cane per acre	Tons of sugar Per acre
1989	0.0649	29.56	1.91
1990	0.0644	22.10	1.42
1991	0.0696	24.57	1.71
1992	0.0789	30.84	2.43
1993	0.0765	32.31	2.47
1994	0.0806	30.40	2.45
1995	0.0865	27.88	2.41
1996	0.0870	29.82	2.62

b. Revenue and Costs

Table I.5 and Figure I.5 illustrate how revenues and the major components in the operating budget - employment costs and purchase of input materials have changed over the period.

- The operating budget has increased dramatically and consistently throughout the period. The effect of the 1991 depreciation is shown clearly by a particularly sharp rise in material input costs, many of which were imported and whose prices, in domestic currency, therefore inflated instantaneously.

[16] *Op cit*. GUYSUCO (1996)

- Another conspicuous trend is the relatively steep rise in employment costs vis à vis material costs, so that its share of the operating budget has become progressively larger. Between 1992 and 1996, employment costs increased by 80 per cent, while the total number of persons employed by GUYSUCO actually declined by about 7,000. The labour intensity of sugar production is a highly significant issue in relation to the productivity and competitiveness of GUYSUCO.
- Despite the cost increases which have been observed over the period, the surplus of revenues over operating costs has actually increased rapidly since 1989. This has arisen through a combination of production and productivity increases (see Figure I.5) and the advent of the SPS quota in 1995, since prices in the SP have remained frozen in nominal terms for over a decade (declining substantially in real terms).

Table I.5: Total revenues, employment and materials costs, 1989-97 [17]

Year	[18]Total revenues	Employment Costs	Materials And inputs
1989	2,525.6	515.1	1,225.7
1990	3,741.2	980.5	2,062.9
1991	13,315.4	2,703.7	6,071.3
1992	17,297.5	4,873.1	6,954.9
1993	16,513.9	6,041.0	6,415.9
1994	18,473.1	7,092.0	6,732.6
1995	20,153.7	7,892.0	8,504.4
1996	an	8,764.0	9,676.0

[17] *Op cit*. GUYSUCO (1996)
[18] Includes revenue from molasses.

Figure I.3: Agricultural and Factory Level Yields, 1989-95

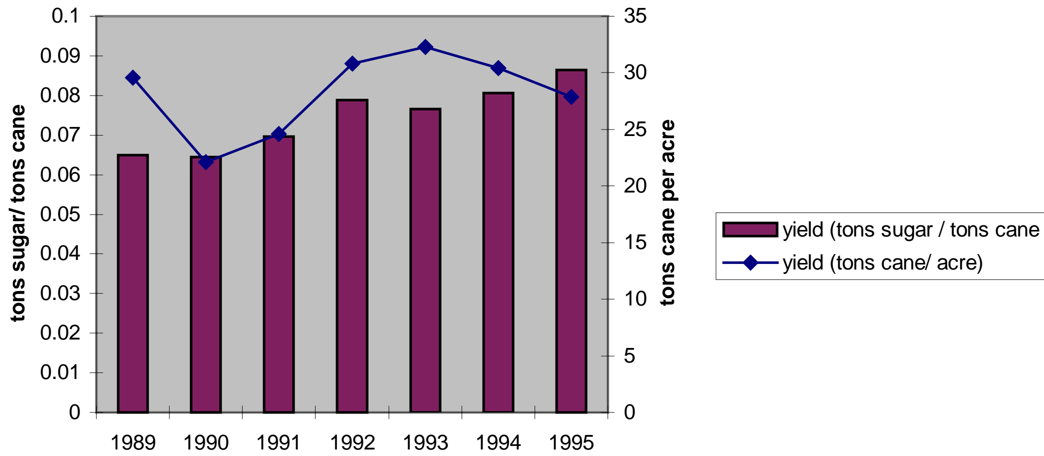


Figure I.4: Industry yield (tons of sugar per acre), 1989-95

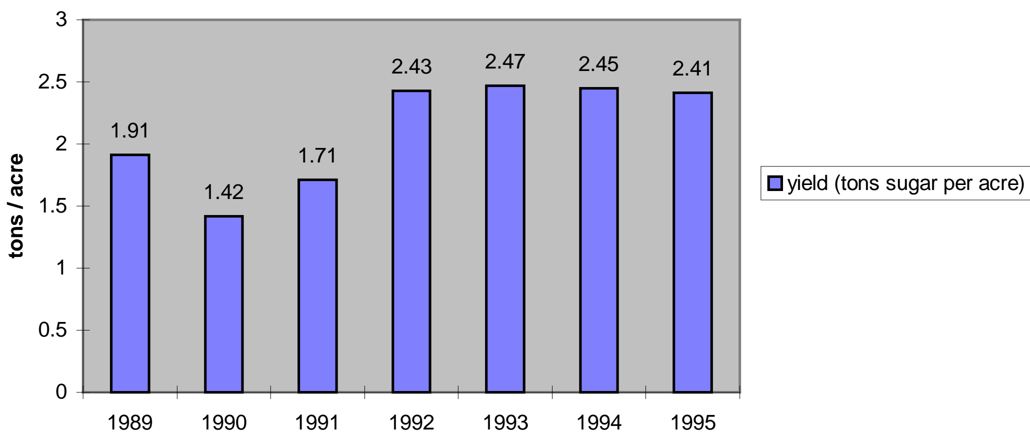
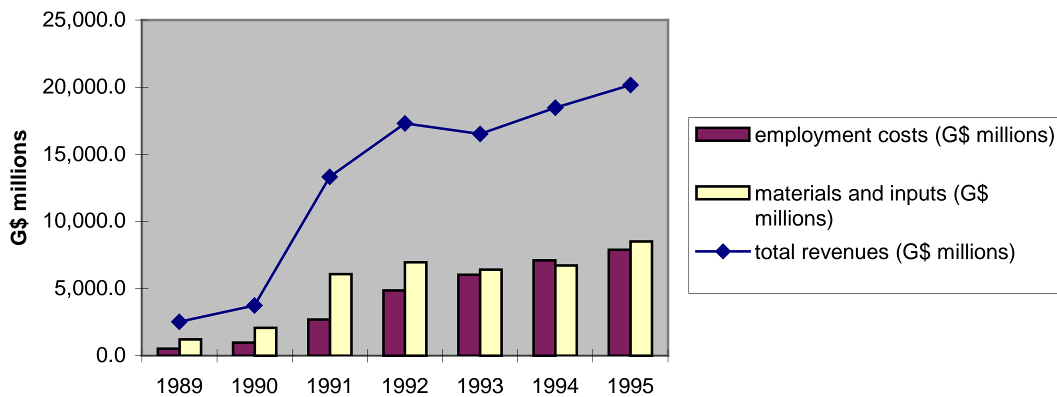


Figure I.5: Total Revenue, Employment and Material Costs, 1989-95



C. Implications of Structural Trends in Light of Future Challenges

i. Production Costs, Productivity and Competitiveness

Considering the trends in the period under review and, specifically, the turning point in the industry's performance in 1991, structural adjustment - particularly macro-economic policy reform in the exchange rate regime and the removal of distortions in the current account - had a profound effect upon the fortunes of the industry, given the prior existence of the SP and the US quotas and the recent introduction of the SPS. The depreciation enabled the full transmission into the domestic economy, of the economic rents deriving in the preferential markets, thereby vastly improving production incentives. Meanwhile, restrictions on foreign exchange earnings and the removal of capital and material import prohibitions facilitated a process of rehabilitation and re-tooling, contributing to the productivity gains observed during the early part of the observation period.

Thus, despite the dramatic increases in employment and materials costs, in the context of relatively slow yield growth - see Figures I.4 and I.5 - between 1992 and 1996, GUYSUCO is still able to generate considerable surpluses because revenues have risen very rapidly. For example, net profit before taxation actually increased from G$ 394.30 million in 1992 to G$ 702.49 million in 1995 (although the foreign exchange value of the increase would be lower because of small depreciations in the domestic currency).[19] The considerable margins over the FOB world price (given above) of about 200 per cent and 150 per cent, in the SP and SPS quotas respectively, give considerable manoeuvrability in accommodating cost increases, which may explain in large measure the inability of the industry to reduce its costs. As long as substantial preferences remain, the industry's profitability may not be under serious threat.

Against the background of future challenges to the ACP sugar arrangements from a variety of sources (discussed in the previous section), the rapid cost escalation observed in recent years, in the absence of rapid and substantial improvements in overall productivity, looks increasingly unsustainable. It costs an average of US$ 394 (FOB) to produce a mt of raw sugar in Guyana. Looking at the export prices for 1996, it is obvious that a surplus over national average production costs can only be earned in the (non-reciprocal) preferential EU and US markets.

[19] Guyana Sugar Corporation (GUYSUCO), Annual Report and Accounts, 1995.

Even the preferential trading opportunities presented by Guyana's membership of CARICOM are insufficient to provide for viable exports from all of Guyana's sugar estates (notwithstanding the results of the estate-specific DRC analysis cited below).

As the most rapidly increasing component of operating costs, and in view of the labour intensity of sugar production in Guyana, it is employment costs specifically which are the greatest cause for concern. Poor industrial relations have troubled the company considerably in the recent past. The man-days lost from strikes and stoppages have increased from 72,000 in 1994 to 80,000 in 1995 to 99,762 in 1996.[20] Declining labour turnout has recently been experienced at three of the four Demerara estates - Enmore, LBI and Wales - and this is cited as one of the more intractable problems facing the business in the context of economic liberalisation.[21] In 1993, wages were increased across the board by 21 per cent, followed by an increase of 18 per cent in 1995. In 1996, a Memorandum of Agreement was reached in October, 1996, providing for a 12 ¼ and 11 per cent across the board wage and salary increase for 1996 and 1997 respectively. Recent history suggests, therefore, that rising labour costs will continue to be forced upon the company as long as large operating surpluses are still being earned. The problem of labour costs is made more acute by the fact that GUYSUCO has evolved into a provider of comprehensive social services for its entire labour force. Elements of this paternalistic arrangement include medical services and hospitals (including primary health centres, dispensaries and ambulances on every estate), subsidised housing and land holdings, recreational facilities and a welfare fund.

The per tonne production costs given above are equivalent to about US$0.18 per lb of raw sugar (FOB). GUYSUCO's stated goal is to reduce this to US$0.13 / lb. in five years. Economies could be obtained by automating fertilisation and weeding, both of which are performed entirely manually at present. It can be expected, however, that this would be resisted strongly by the unionised labour, since it will inevitably involve layoffs. It is unlikely that cane-cutting (which would reduce costs considerably and is currently an entirely manual operation) can be mechanised. Guyana's cane fields are predominantly laid out in long narrow strips, to allow frequent drainage and irrigation channels on either side. This arrangement, in combination with the high moisture and clay content of the soil, does not lend itself to the use of heavy cutting machinery. The unusually high water table in Guyana has also been cited as a possible constraint

[20] Op cit. GUYSUCO (1996).

[21] National Development Strategy, Chapter 33: The Sugar Industry, NDS Secretariat, Ministry of Finance, Georgetown, Guyana.

on the overall productivity of the industry since saturated soils can severely damage cane root structures. The sugar content of Guyanese cane is among the lowest in the world. Attaining significant productivity improvements will also require replacing, or comprehensively rehabilitating, Guyana's eight sugar mills, the newest of which is over thirty years old. The urgent need for factory innovation is acknowledged by the company directors.

ii. Competitiveness of Specific Estates

To a certain extent, a dichotomy exists within the industry, in that the Berbice Estates of Skeldon, Albion, Rose Hall and Blairmont exhibit higher yields (according to all three indices discussed above) than the Demerara Estates of Enmore, LBI, Wales and Uitvlugt. Recorded indices for 1996 indicate, for example, that per acre sugar production (the proxy for productivity both at the agricultural and factory levels) was 2.39 tons per acre for the Demerara Estates as a whole and 2.77 tons per acre for the Berbice Estates. Tons of cane per acre was 28.88 and 30.46, and tons of sugar per ton of cane 0.083 and 0.091 for the Demerara and Berbice Estates respectively.[22]

These productivity differentials translate into substantial differences in international competitiveness. Domestic resource cost (DRC) analysis on the sugar industry in Guyana, offers some indication as to the present viability of the industry (and that of the different estates within the industry) in the context of different export markets.[23] DRC calculations provide an empirical measure of competitiveness (from the *social* point of view of profitable use of domestic resources, rather than the *private* concept of profitability). According to these criteria, Angel (1996) finds that both groups of estates are competitive in the EU markets (SP and SPS) but only the Berbice Estates are competitive in the US preferential market. Neither Demerara nor Berbice Estates demonstrate a competitive advantage, in the protected CARICOM market or the world market. In other words, production for the latter two markets costs the country more in terms of foreign exchange than it earns in export revenues.

Given the competitiveness in the EU markets at current preferential prices, and the lack of alternative markets (except Berbice production for the US Sugar Quota), the erosion of EU

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[22] GUYSUCO, 'Chief Executives Report', December, 1996
[23] Amy Angel (1996) *Analysis of the Effects on Guyana's Export Sector of Changes in International Markets*. Atlanta, Georgia: The Carter Centre Sustainable Development Program. January.

support prices - and possibly quota volumes - associated with the Uruguay Round implementation period to 2001, is clearly a crucial factor in the industry's viability.