THE CONTROL OF SUGAR PRODUCTION FROM A MILLER'S POINT OF VIEW

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Summary

The method of control of production, based on the Farm Mean Peak principle, is discussed and it is shown that this principle leads to an inequitable division of available sucrose among millers. The smaller millers in particular are being asked to shoulder a proportionately bigger share of the hardship resulting from restriction and it is suggested that some means of relief should be provided for such millers.

It is my firm conviction that the fundamental motive behind any measure of control which results in hardship should be that all parties subject to such control shall suffer the same degree of hardship. This motive applies in particular when parties enjoying a lesser degree of hardship can only do so at the expense of those less favourably placed. I am convinced that the present method of control of sugar production was designed in an effort to comply with the above principle as far as possible.

Sugar is produced in partnership between growers and millers and we must recognise these two producers as two distinctly different types of producers, who are not necessarily affected by a particular method of control in an identical way.

In restricting the production of a product to within certain limits, the above fundamental principle of control can only apply if some basis, common to all producers, can be found by which each producer is allocated his fair share of the total production which is aimed at. The most equitable common basis on which to operate a scheme to restrict production would be profitability. Unfortunately profit is not an entity which can be readily measured as such, and furthermore because of different degrees of efficiency profitability is an unwieldy yardstick by which to measure the effect of restricted production. Since profitability is a definite function of actual performance, an approximation to the ideal can be obtained by establishing a producer's past share of the total output of the product under control as a basis on which his future share shall be allocated. Because the production of sugarcane is subject to factors outside the control of the producer it appears essential that a producer's past performance shall be judged over a prolonged period in an effort to minimise the affect of such factors as drought, floods and other adversities.

The above arguments apply equally well to both growers and millers.

The present method of control of production has allowed a period of twelve years during which maximum output (expressed as the average of two successive years) could be established and the Farm Mean Peak so established is the basis on which a grower's share of the total output is calculated. No such provision for a miller's share of the required production of sugar has been made, presumably on the assumption that, since a miller may only accept sucrose from growers attached to him, the miller would automatically receive his fair share of the total output. Unfortunately this is not the case since a miller's maximum performance, even when judged as the best average of two successive years, is but the sum total of the actual performance, and not necessarily the maximum performance, of his supplying growers. Hence a miller's peak performance must invariably be smaller than the combined peak performance of growers attached to him. The difference between these two peaks is likely to be greatest in areas of uncertain weather conditions and in mill groups having a large number of growers attached to the miller (i.e. at big mills). Hence a substantial cut in production, based on the Farm Mean Peak of growers, will tend to reduce, or even nullify, the affects of such natural hazards as droughts and floods in any one season and must result in a smaller restriction on big millers and millers situated in areas of uncertain weather conditions, than is the case with small millers and millers situated in more stable areas.

The Farm Mean Peak system, as applied to established growers, could obviously not be applied to growers who had not yet been in a position to establish a peak and provision was made for such growers in the form of contingency quotas which, subject to actual performance, are convertible to fixed quotas as under the Farm Mean Peak system.

Obviously the millers to whom such growers are attached will enjoy the benefit of such additional quotas. Since the total production of sugar is restricted, it follows that room must be made for such new quotas at the expense of established producers, both growers and millers, i.e. the cut in production will be increased by an equivalent percentage. As far as individual growers are concerned their quotas will be reduced by an equal percentage of their Farm Mean Peak. Since the occurrence of such new growers is not distributed evenly over all mill groups it follows that millers fortunate enough to have such new growers attached to them will be in a position to increase their share of the total output of sugar, naturally at the expense of those less favourably placed.

It could be argued that a miller has no right to claim any share of the total sugar production other than that defined in Clause 19 of the Agreement. Such an argument is not in conformity with the principle of control, as defined earlier. Were all milling companies owned by the supplying planters on a co-operative basis this argument would have more force, but shareholders and directors of publicly-owned companies have no control over the activities of their supplying growers and such companies have

every right to claim that their interests shall be protected.

It could also be argued that millers who have invested large sums of money in enlargement of their facilities have a right to demand that such investments shall earn a just, albeit reduced, return. On this basis such millers, on a parallel with holders of contingency quotas, should be entitled to enjoy the benefits of increased production in spite of restrictive measures.

This argument is very sound indeed but it should apply to all millers irrespective of whether they are fortunate enough to have such contingency quotas attached to them or not. This is, however, not the case with the present method of control.

In the light of the above it can be concluded that the present method of restricting the production of sugars does not succeed in distributing the burden of control evenly over all concerned. It is possibly true that no method of control, however carefully designed, is capable of distributing the inevitable hardships resulting therefrom evenly over the shoulders of all concerned.

However, it is also true that some millers, and the smaller millers in particular, are placed in a far less favourable position than other millers and since this was obviously not the intention of the authors of the method of control, some means of relieving the burden on such millers will have to be found.

The President (in the Chair), said it was seldom he had listened to a more clear exposition of the facts and difficulties inherent in any scheme of restriction, especially when the restriction was so great. As the system was based on growers' mean peaks it would appear that those growers with a very constant annual production, such as those employing irrigation, would suffer more by restriction than those whose crops varied greatly from year to year.

Mr. Morrison had given an arbitrary table which shewed that the Industry might not get back to free production until 1980-81. He thought this to be somewhat pessimistic. The table shewed an available market for 1980-81 of 1,360,000 tons of sugar but this was greater than that of any record year to date. The mean peaks, being based on peak production for various years, must necessarily be greater than any particular year, so that it would be possible to reach free production before the total market amounted to 1,360,000 tons of sugar.

The President stated that he had not had time to read Dr. van der Pol's paper before it was presented to Congress, but listening to it now, made him realise how hardship could be caused to individual millers by the system of control with its high degree of restriction.

Dr. Van der Pol made it clear that he did not wish his paper to be considered as a special plea on behalf of any particular mill, but rather as an amplification of Mr. Morrison's remarks in his paper under the heading "The Problems of Mills". He was gratified to be able to state that it had now been agreed that any hardship to mills would be investigated.

Mr. J. Wilson said good cases had been made from both the growers' and the millers' points of view. As far as he could see prices of sugar and of cane were based on costs of production. He asked for the views of both authors as regards cost of production under the scheme of restriction and how this would be affected by efficiency of production.

Mr. Morrison said that cost of production did not control price. The Government was of the opinion that there could not be over-production unless the price was remunerative. There were of course points of view against this difficult argument, but with over-production the Industry was fortunate in obtaining an increase in price last year.

The present system of control allowed every grower to plan his operations ahead with a view to maximum efficiency and economy. A grower now had the disadvantage of having a smaller spread-over of his overhead expenses but against this with a smaller crop he could devote himself to more intensive field management.

It was true that a grower with a stable production might be penalised as against one with a variable production but it was difficult to find any scheme which would be absolutely equitable to every grower.

As far as millers' problems were concerned, he suggested that in finding a solution we should not upset the balance now created between growers. Perhaps the inequalities between millers might be resolved by some method of diversion of cane.

Dr. van der Pol said that while with restriction of production the profitability of sugar milling had been reduced, millers should be grateful that the basis was sucrose, for this enabled them to gain by increase in efficiency. There was room for improvement in efficiency in individual mills, but without some major break-through in research, improvement could come chiefly by expenditure on plant, which, under present circumstances, might not be economically justified. He thought that as growers were reducing their costs of production the quality of cane might deteriorate, which would be to the millers' disadvantage.

He agreed with Mr. Morrison that any solution to millers' problems should not upset the excellent arrangements how obtaining between growers, but he felt that these problems were Industrial and not Millers' problems only.

Col. Campbell related that the crop at Natal Estates was 500,000 tons of cane this year, but as it was not possible to mill all this cane, a start had been made with growing beans for rations and 100 head of cattle had been bought and would be fed on those fields where the cane crop could not be reaped. He thought that the Government should send men overseas, as had been done in the case of trade delegations, to try and find further markets for the sugar industry.

Mr. A. C. Barnes said that there were two problems facing the grower, firstly what he could do with his surplus cane and secondly what he could do with the land which would go out of cane production. Some thirty years ago the Department of Agriculture in Jamaica—that country being faced with the same problem of over-production—studied the feeding of immature cane to cattle which were also given a supplementary ration of high protein seed-meal. The dairy herd so fed increased its milk yield by 40 per cent.

There were many other crops which could be produced on the surplus cane land but they had to be searched for and tested for our conditions. If he were a grower he would use the surplus land for crops such that it could easily be used again for cane when restriction was lifted.

Mr. J. W. Main asked if the Industry had studied the implications of the "Standstill Agreement" passed by the United Kingdom Parliament, and what was the latest news on the 1968 Commonwealth Agreement? He thought that if we lost overseas markets this would mean alterations to the predicted scale of cuts shewn by Mr. Morrison.

He suggested that a committee be formed by the Industry to study further outlets, as for example high test molasses and the manufacture of paper from cane. Such uses for surplus cane would necessitate alteration to the present South African Sugar Agreement.

Mr. Morrison said that there was no answer to the query about the 1968 Agreement at this stage, but the Industry had sent a delegate to England to enquire into the matter.

The Industry was studying the possibility of further outlets for sugar such as high-test molasses as well as the production of by-products.

Mr. J. Wilson said that from the literature it would appear that the World sugar production was increasing at the rate of about 6 per cent per annum while the world population was increasing at about 2 per cent per annum. The increase in sugar production was taking place in the beet industry countries where we sold our sugar, so that it was now necessary for us to consider agricultural production rather than sugar production. Faced with competition and a reducing market we had to look for complementary crops, which should be high value crops for sale in this country.

He questioned whether it would be economically justifiable to keep the inefficient producer in existence by further price adjustments when a surplus of sugar was already available.

Mr. Mansfield-Sanger agreed with Mr. Wilson that restriction had come to stay, and he advocated that the possibilities of alternative crops should be pursued with the utmost vigour.

Dr. Dodds pointed out that the problems of the grower and of the miller were not very similar. The grower's capital was invested in his land, the surplus areas of which he could devote to other crops, while the miller's capital was in his plant which could not be used for purposes other than sugar manufacture.

Mr. Wilson advocated the planting of supplementary crops which would be much more valuable than sugarcane, such as tea and coffee. These two crops had been discarded years ago because of low yields brought about by diseases but with modern methods of disease and pest control they could now be highly profitable if grown intensively.

Mr. W. H. Simpson was disturbed to hear reference to the inefficient sugar producer. He wished to know what constituted an efficient producer and what an inefficient producer? All sorts of people go to make up any business or industry. Growers could not agree that any of their number should be forced out of the Industry and that the cream should go to the bigger producers. It must be remembered that the Industry had not been built up by the large producers, but by the small producers who today still constituted the bulk of the sugar growers. These small producers were entitled to their share of the proceeds, perhaps more so than those who were in a better position to meet the hard times we had to face.

Mr. Exley Steward felt that many producers attempted to grow cane on land not suited to sugar production and that they should not continue to do so.

Mr. Wilson said he had no intention of casting any aspersions on any individual grower. It was quite clear that in the last twelve years we had in places extended production on to land which was incapable of growing sugarcane except at very small profit if any at all. To continue to do so in times of surplus was unjustifiable if industrial efficiency was the prime consideration.

Mr. W. H. Simpson stated that it was obvious that with restriction of production any grower would discard his poorest land first.

He asked what effect three-year old cane would have on factory efficiency?

Dr. van der Pol said that the fact that cane was three-years old did not count in itself, but if this cane had an excessively high fibre, was trashy, had lodged and had aerial roots, then it was obvious that these factors would reduce factory efficiency.

Dr. Naude said he had had experience of part of the country where cane grows well and where the industry started in 1956. He put the case of a planter with a quota of 480 tons of sucrose given him in 1956 and which he was expected to fulfil in 1959. He planned accordingly and was ready to produce his 480 tons when control was introduced and he was allowed to produce now only 75 per cent of the average of the past two years. This meant in one case that the grower could produce only 200 tons and the balance of 280 tons was left on the land. Fortunately the Government had stepped in and decided that he be allowed to harvest 67 per cent of his crop. He felt that the control system should be altered to protect such a grower as the Quota Tribunal had been unable to assist in this particular case.

Mr. Morrison said that with new growers coming into the Industry it was unfair to ask existing growers to hold back for an indefinite period so that whenever new growers could produce 480 tons of sucrose everybody else had to reduce their crops to accommodate them. In 1956 the possibility of control of production was foreseen and it was felt that with a large quantity of contingency quotas introduced by new growers, these growers should be given a reasonable period to fulfil these quotas. Such growers when given their quotas in 1956 knew they had four years in which to produce them. The Industry had set up an independent Tribunal to judge such cases and to ensure that no grower would be forced into bankruptcy.

He put the case of two growers who in 1956 contemplated putting in irrigation schemes. One decided to take the risk, but the other decided, in view of the possibility of restriction, not to do so. Must the one who took the business risk now benefit as against the one who did not?

Mr. W. J. G. Barnes thought that there were two points to consider. Firstly the small grower had been hard hit by the degree of the cut. There was nothing wrong with the system in itself, the trouble being caused by the severity of the cut. Secondly the Equalisation Fund gave the small growers a very substantial price advantage over the large growers.