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THE BRUSSELS SUGAR CONVENTION

THE history of what has come to be called "the sugar question" furnishes a valuable object-lesson on many points of vital interest, now that fiscal policy has become the great battlefield of the day,—valuable not only in the happy result of restoring, in our country, free trade in sugar, but also in disclosing, during the thirty years of incessant struggle, the almost incredible fallacies of those who, erroneously interpreting the principles of free trade, opposed so legitimate a result. A few eminent statesmen, illustrious economists, and leading Government officials have persistently and successfully blocked the progress of negotiations and postponed the settlement of a matter which, in the interests of free trade, called loudly for immediate redress. Serious injury and gross injustice to British industries, flagrant interference with the natural course of trade and production, entire disregard of the true interests of the consumer,—all these have been upheld and defended on grounds so absolutely contrary to all sound economic principles that any one who carefully studies the history must conclude that these "weighty" opponents could only have been acting in a free trade burlesque.

When Mr. Gladstone, in 1864, first proposed to take international steps for abolishing bounties on the exportation of refined sugar, he little thought that nearly forty years would elapse before the bounty question, so far as sugar was concerned, would be settled. He took up the subject with a light heart, and evidently with no doubts as to the soundness of the policy he was proposing when he declared the Convention of 1864 to be "a beneficial arrangement, beneficial alike to importers, refiners, and consumers." This Convention contained a clause recognising the necessity, as security to the contracting Parties, for some penalty against any infringement of its provisions. This must have been inserted with Mr. Gladstone's approval, and no word of objection was at that time heard in any other quarter.

During the ten years of this treaty France evaded her engage-

ments, in spite of constant protests from the British Government. The bounty obtained by the Paris refiners went on steadily increasing, and jumped up to a really formidable sum when the French sugar duties were nearly doubled at the close of the Franco-German war. The bounty at that time was confined to refined sugar, and arose from the fact that the duty was paid on the raw sugar as it entered the refinery according to an estimated yield of refined sugar, the full duty on pure sugar being returned in drawback on that portion of the refined sugar which was exported. The method of estimating the yield was imperfect and incorrect, and also gave opportunities for fraud or deception. The result was inevitable—a much larger sum was returned in drawback than had been paid in duty.

In 1872, two years before the expiration of the Convention, the struggle began. The British refiners pointed out that the only effectual remedy would be to levy no duty until the refined sugar went into consumption. By that means the refined sugar which went for export, having paid no duty, would receive no drawback, and therefore no bounty. This involved excise supervision of the refineries, called in this country “refining in bond.” Our Government was at last convinced that this was the only remedy, and urged its international adoption. The difficulty was to get the French Government to move. The Paris refiners were rich and powerful and managed to obstruct the progress of the proposed reform. But the British refiners found active allies in the French beetroot sugar manufacturers, who were subjected to the very system which it was proposed to extend to the Paris refiners, and who, therefore, were absolutely prevented from obtaining a similar bounty. It was a striking anomaly that the great French sugar industry, which was doing so much to benefit the agricultural districts of northern France, should be subjected to the strictest excise supervision in order that not an ounce of their sugar should escape duty, while three or four colossal refineries in Paris were left free to play ducks and drakes with the revenue, which had just been so carefully looked after in the rural districts. The “Fabricants” were naturally jealous of their only customer, the favoured Paris refiner, and were also keenly alive to the fact that the bounty was preventing them from finding an excellent second customer in the British refiner. They therefore threw themselves into the struggle with much enthusiasm and some success. The National Assembly was induced to vote for refining in bond, but the international negotiations were sufficiently delayed to enable this vote to be quashed.

At last, in 1875, a conference was held in Brussels, Great Britain, France, Belgium, and Holland being represented. The British Delegates manfully fought the battle for refining in bond, and continued to do so at the subsequent conferences held in Paris in 1876 and 1877. There were many delays and evasions, but in 1877 a Convention was drafted which would have settled the question if the British Government would have agreed to a penal Clause. The French Delegates, supported by Belgium and Holland, pointed out most reasonably that they could not bind themselves to abolish bounties unless they had security, in the terms of the Convention, that they should no longer be liable to the competition of bounties from other quarters. The Treasury refused to give this security.

The Convention of 1877 consequently came to nothing. But in the meantime new and alarming features were appearing in other quarters of the European sugar industry. Germany and Austria were beginning to give bounties. In Germany the beetroot sugar factories paid duty on the weight of the roots according to an estimated yield of sugar. This system was intended as a direct encouragement to the growth of the richest roots and to the perfecting of the machinery and processes for the extraction of the largest possible proportion of the sugar contained in them. It was an excellent intention and thoroughly successful. The German character is exactly suited to such a task. The industrious, ingenious, and scientific "Fabricant" saw that he could make a large extra profit by obeying the stimulus and he did so with consummate skill and the utmost perfection. The choicest roots were grown in the most approved manner, factories were constructed with all the latest improvements, and the whole industry carried on under the supervision of men of the highest scientific and industrial reputation. But though the intention of the legislation was so far good and effectual, one of its ultimate results was inevitable,—more sugar was produced than was estimated, a bounty was consequently obtained out of the drawback on export, and the revenue began to fall off.

In Austria the same thing was happening in an exaggerated form. There the duty was also charged on an estimated yield of the roots; but a further estimate made matters worse. The roots were not weighed but the quantity of them was estimated according to the supposed capacity of the apparatus of the factory. The great object of the manufacturer, therefore, was to deceive the Excise Officers as to the capacity of his apparatus. The bounty consequently became so great that in 1876 the

revenue derived from the sugar duty in Austria actually became a minus quantity.

By this time the West Indians had joined the British refiners in fighting the European sugar bounties. They saw that every ton of foreign bounty-fed refined sugar imported meant a ton of West Indian raw sugar shut out from British markets. They also saw the new bounties on raw sugar appearing. The refiners on their part felt that if bounties were to be successfully opposed they must be opposed all round, and the two bodies have, therefore, always worked together with the same object,—the total abolition of bounties.

In 1879 a Select Committee of the House of Commons, appointed at the instance of Mr. Ritchie, who presided over it with conspicuous ability, thoroughly sifted the details of this complicated question. It not only examined witnesses as to the facts of the case, the effects of the bounties, and the course of the international negotiations, but also necessarily investigated the crucial point of those negotiations, namely, the penal Clause, without which, as has been explained, there was no possibility of obtaining a Convention. The whole question resolved itself gradually into this: is a duty to countervail a bounty consistent with free trade? The Committee reported that it was and gave conclusive reasons for its decision.¹ But the Foreign Office declared that it would be contrary to the stipulations of the most-favoured-nation Clause in our Commercial treaties, and therefore the decision of the Committee became of no effect. It is clear that the admission of bounty-fed goods destroys the equality of treatment which is the object of the most-favoured-nation Clause to secure, and therefore it is difficult to understand how the law officers of the Crown arrived at their decision. It is evident that the present legal advisers of the Government take a different view and one more in harmony with the views of the Committee and of the legal advisers of the sugar industry.

The report of the Select Committee was naturally regarded as a great triumph for the advocates of the abolition of bounties. Unfortunately it was shelved and forgotten owing to events which immediately followed.

Mr. Gladstone was again in power and evidently feared that if the sugar question were not got rid of it might become a serious thorn in his side. The policy he adopted was to take the conduct of the negotiations away from the Foreign Office

¹ See the *New Liberal Review* for November, 1902, "Free Trade in Danger."

and hand it over to the Board of Trade, a department at that time avowedly hostile to the abolition of bounties. The question therefore was allowed to slumber, but the bounties went on increasing by leaps and bounds. In 1884 France adopted the German System in its raw sugar factories, levying the duty on the roots according to an absurdly low estimate of their yield, and thus establishing an enormous new bounty which very soon amounted to ninety million francs per annum. Germany and Austria, on the other hand, for the protection of their revenue, abolished their indirect bounties and substituted a temporary direct bounty on the exportation of raw and refined sugar. This was done in Austria in 1888, and in Germany in 1892, and was intended as a temporary measure pending the total abolition of all bounties. But the French bounty became so overpowering that, in 1896, Germany and Austria doubled their bounties, to which France replied in the following year by adding a direct bounty to its already overgrown indirect one.

In 1889, under Lord Salisbury's administration, a Convention had been signed in London, but when a small, unreasonable, and erroneous opposition was offered to the Bill in the House of Commons Mr. W. H. Smith promptly withdrew it. This involved another ten years of inaction. The production of bounty-fed beetroot sugar increased, under the new bounties, until it constituted two-thirds of the visible supply of the world. Cane-sugar rapidly disappeared from British markets, and British refined sugar was displaced by an annual importation of nearly a million tons of bounty-fed foreign refined.

This was the state of things when the Conferences at Brussels in 1898 made one more effort at a settlement. But even then the British Government were not prepared to give the necessary security, and the negotiations again ended in failure.

Our Government still wanted something to strengthen their hands, and they fortunately found it at the Congress of the Chambers of Commerce of the Empire, held in London in 1900. The London Chamber had on several occasions declared in favour of a Convention with a penal Clause. On this occasion Sir Nevile Lubbock moved the London resolution in a brilliant speech, and was powerfully supported by Sir Thomas Sutherland, Lord Avebury (the President) and many influential Colonial Delegates. The resolution was carried by a large majority, and the Government appear to have accepted it as a mandate.

This brief but necessary historical retrospect is sufficient to lead up to an intelligent appreciation of the Brussels Conferences

of 1901-2, and of the Convention which has now become law in nine of the principal European countries. But before explaining its provisions it is necessary to describe a new form of bounty, far more dangerous and excessive than any of its predecessors, which had, in the mean time, made its appearance. At the Conferences of 1898 the Russian system had been a subject of much discussion and had been condemned as constituting a large bounty on the production and exportation of sugar. Direct bounties had been given in Russia from time to time in order to enable the industry to get rid of their surplus stocks; but in 1895 the Russian Government adopted what they considered a better method of permanently assisting and stimulating the industry. An elaborate Governmental system was devised by which the manufacturers were enabled to maintain the price of sugar for home consumption, by means of the high protective import duty, at a figure far in excess of the world's price. This gave them an enormous extra profit, and thus helped them to sell for export even below cost price and yet make an abnormal profit on their total production. No system could be imagined or devised which should more certainly cause over-production, the glutting of the markets of the world with goods below cost price, and the consequent gradual destruction of the natural sources of supply. This is the *modus operandi* of what is now called "Dumping."

The industry in Germany and Austria followed the example, so that when the Conference met again in Brussels in 1901, it was found that new bounties had arisen in those countries which threw all other bounties, except those of France and Russia, into the shade. The German and Austrian "Cartels," as they were called, differed from the Russian "Normirofka" in one important respect. They were private combinations of the beetroot sugar manufacturers and refiners and not a combination organised by the State. But it was pointed out that the advantage derived constituted, nevertheless, a State bounty, because it depended for its success on the action of the State in maintaining an excessively high import duty. The "surtax," that is, the excess of the import duty over the consumption duty, amounted, in Germany and Austria, to a sum far in excess of that necessary for the mere purpose of protecting the industry in its own market against outside competition, and it was this surtax that enabled them to raise their prices to the home consumer to a very high figure, and thus to create a fund with which to pay bounties on the exportation of their large and constantly increasing

surplus production, a surplus amounting to two-thirds of their crop.

Here was a complete object-lesson of the effect of high import duties coupled with trade combinations—a practical and detailed illustration of the art of “dumping.” An accurate calculation of these Cartel bounties can be made by adding the consumption duty to the export price—the world’s price—and deducting the sum, which should represent the normal price for home consumption, from the actual price as obtained by means of the trade combination and the protective surtax. In January, 1902, when the Conference was sitting at Brussels, it was found that the figures for Austria were as follows :

	Crowns per 100 Kilogrammes.
Normal price for home consumption	61·55
Actual price	83
Difference, <i>i.e.</i> , Cartel bounty	21·45

This is more than 9s. per cwt. of sugar consumed, and gives an annual Cartel fund of £2,957,868, which is sufficient to furnish a bounty of 4s. 8d. per cwt. of refined exported, or 4s. 2d. per cwt. of raw sugar exported.

The figures for Germany were as follows :

	Marks per 50 Kilogrammes.
Normal price for home consumption	20·05
Actual price	27·95
Difference, <i>i.e.</i> , Cartel bounty	7·90

This is nearly 8s. per cwt. of sugar consumed, and gives an annual Cartel fund of £5,558,495, which is sufficient to furnish a bounty of about 5s. 5d. per cwt. of refined exported, or 4s. 10d. per cwt. of raw sugar exported.

In the year ending July 31, 1902, Austria-Hungary produced 1,171,056 tons; consumed 349,117 tons; and exported 739,186 tons.

In the same year Germany produced 2,302,246 tons; consumed 743,520 tons; and exported 1,144,317 tons.

These brief calculations and figures show, at a glance, the vital importance to all industries of the present burning question of “dumping,” and furnish the necessary materials for its further study. In the case of any commodity, an excessive foreign protective duty, in conjunction with a trade combination, can create a similar bounty and thus glut in like manner the markets of the

world with its artificially stimulated over-production, thereby depriving the consumer of the benefit of natural competition, discouraging, and eventually killing the natural sources of supply, and ultimately resulting in an artificial monopoly. This was the keynote of the Brussels Conference, and it is a great triumph to Lord Lansdowne's able diplomacy that the first blow, and a most effective one, has thus been successfully dealt against an attack now threatening to undermine the natural course of production throughout the world.

The first Article of the Convention declares that the contracting Parties undertake to suppress direct and indirect bounties on the production or exportation of sugar, and proceeds to define, as follows, some instances of the way in which such advantages may result from State legislation.

(a) Direct bounties granted to export.

(b) Direct bounties granted to production.

(c) Total or partial exemptions from taxation granted for a part of the manufactured output.

(d) Advantages derived from excess of yield.

(e) Advantages derived from the exaggeration of the drawback.

(f) Advantages derived from any surtax in excess of the rate fixed by Article III.

Definition (f), inserted at the instance of the British Delegates, was absolutely essential in order to meet the case of the Cartel bounties. They proposed to define Cartel bounties as "advantages derived from any surtax," but in view of the critical state of the negotiations accepted the limitation. The first Article is, therefore, so far inconsistent that, though it declares the abolition of all bounties, it permits any Cartel bounty which may be obtained from the reduced surtax fixed by Article III. Up to now the industries in Germany and Austria have not attempted to organise a Cartel bounty out of the reduced surtax. The figure of this reduced surtax was, of course, a great bone of contention, but was finally fixed at 6 fr. per 100 kilogrammes, that is, 2s. 6d. per cwt.

The direct bounties in Germany, France, Austria and Holland came under definitions (a) and (b). The bounties defined under (c) (d) and (e) belong to one family and are practically interdependent. Levying the duty on an estimated yield is probably followed by the obtaining of a yield in excess of the estimate and consequently by a "total or partial exemption from taxation for a part of the manufactured output." But this would not necessarily

create a bounty unless the full amount of duty were returned in drawback on export. In that case the manufacturer can obtain the full duty from the home consumer ; but if it were not so the exemption from taxation would merely operate as a reduction of duty to the consumer. Where the full drawback is returned on export though the full duty has not been paid by the manufacturer, the drawback becomes practically an exaggerated one and the bounty is really the result of a combination of the causes defined in (c) (d) and (e).

The second Article abolishes such bounties as are here defined by prescribing excise supervision of factories and refineries, so that no duty shall be charged on the estimated yield, and therefore, no drawback paid on exported sugar. The sugar will be manufactured and refined "in bond," that is, without having paid any duty ; drawbacks will thus be abolished, and the sugar for home consumption will pay the duty when delivered for that destination.

The third Article fixes the maximum surtax at 6 fr. per 100 kilogrammes.

The fourth Article is the penal clause, the object of which is to give to the contracting States security that they shall not in future have to compete with bounty-fed sugar. It declares that a duty not less than the amount of the bounty shall be imposed in the markets of the contracting States on sugar from all countries that grant bounties. In the case of bounties arising from a surtax higher than that fixed by Article III. the countervailing duty shall be calculated by deducting from the surtax the figure so fixed and taking half the difference as representing the bounty.

These then are the salient points of the Convention. The decision to abolish all bounties ; the establishing of manufacturing and refining "in bond ;" the limitation of the surtax ; and the security to the contracting Powers that bounty-fed sugar will no longer be tolerated in their respective territories.

In order to estimate the results of this Convention it is necessary to indicate the real effect of bounties, which is very imperfectly understood. They simply stimulate production and thereby cause a superabundance of the bounty-fed article. This brings about a fall in price until at last it goes below cost. The effect of reducing the price of a commodity below the cost of production must be to discourage and reduce natural production. If this were to continue long enough all the natural sources of supply would be dried up. The bounty-fed producer can continue his production so long as his bounty leaves him a margin of

profit. The ultimate effect of bounties would therefore be to leave the bounty-fed producers with a monopoly. This is a process clearly fatal to the interest of the consumer; and, therefore, when he congratulates himself on enjoying the very temporary advantage of unnaturally low prices he appears to be fatally blind to its ultimate result.

The cost of producing beetroot sugar may be taken, for the average of the whole of Europe, at somewhere between 9s. and 10s. per cwt. The cost of producing cane sugar in tropical countries ranges from 8s. to 9s. per cwt. Both of these are rough estimates and round numbers, but they are sufficient for the argument.¹ Now that bounties are abolished the cost of sugar will be governed by the cost of production, and therefore will range round about these figures. During the bounty period over-production has periodically forced prices below the cost of production. The reaction caused by the consequent discouragement and even reduction of the natural sources of supply has invariably sent prices far above that cost, and consequently the consumer has had to pay a higher average price than he will have to pay now that production is at last permitted to enjoy free competition on the basis of natural advantages.

During the two years preceding the Convention prices had been forced down to a point 3s. per cwt. below cost price, owing to the effect of the new cartel bounties in Germany and Austria. Production was so stimulated that the visible supplies of the world rose to a point more than a million tons above the normal level. Markets were so glutted that even the beetroot sugar producers reduced their production. That remedy has, however, been insufficient, and the markets still remain overloaded. Prices recovered slightly in the expectation that things would right themselves; but as the glut remains the price still hangs below the cost of production. It will be interesting to see whether the beetroot sugar industry, which now supplies two-thirds of the world's visible consumption will make a sufficient effort to bring supply into harmony with demand. They do not want to produce at a loss; but, on the other hand, they know that for each factory reduced production means increased cost of manufacture. The remedy will therefore be gradual, and abnormally low prices may continue a little longer. In the end we may be sure that prices will range round about the cost of production and that the consumer will enjoy a lower average price than he has ever had

¹ For details on this and other points, see *Journal of the Royal Statistical Society*, June, 1899, pp. 296-332.

before and a steadier market, free from periodical gluts followed by periodical scarcity.

The cane sugar producers will undoubtedly have a great revival. They wanted security—a fair field and no favour—and could not get it. Now that it has at last been given to them they will no longer hesitate to invest capital in their industry. They can, with good appliances, produce a great deal more sugar per acre than their European competitors. There is, therefore, every prospect of their reducing still further their cost of production, which already stands 1s. per cwt. below that of Europe. The competition between cane and beetroot promises, therefore, to be healthy and keen. The only hope for the beetroot industry is largely increased consumption in their own countries, now that, bounties being abolished, not only heavy surtaxes disappear but also excessive excise duties can be reduced.

Some cane sugar producing countries have recently found salvation in the great expansion of the demand for sugar in far Eastern markets. In the United States West Indian sugar has in recent years enjoyed an open market because bounties have in that country been countervailed. But that market will soon be closed to them. There are several sources of supply which now enjoy preferential treatment in the States, and these will before long supply all the sugar that is required there. Louisiana, the Sandwich Islands, Porto Rico, and the home grown beetroot sugar are all admitted free of duty and thus obtain an extra profit of nearly 8s. per cwt. They consequently increase their production to the utmost limit. Cuba, which now produces more than a million tons of sugar, enjoys a benefit of 20 per cent. of the duty, and the Philippine Islands rather more. The United States will evidently soon be in a position to disregard supplies from outside its own family. For a time this will be a thorn in the side of our sugar producing colonies, but they will be better able to bear it than their beetroot rivals who have a higher cost of production.

There is one minor point in the Convention which calls for a word of comment. The fourth Article lays down the rules for countervailing a bounty by means of an equivalent duty, but it adds as an alternative that the high contracting parties reserve to themselves the power to prohibit the importation of bounty-fed sugar. This appears to have arisen from some curious superstition on the part of the British Government that a duty might be

regarded as contrary to the principles of free trade, but that prohibition could not fall under that stigma.

If this was the idea it shows a curious want of grasp of the subject. A bounty destroys free trade in the country which receives the bounty-fed commodity, because the producer of that commodity is at once placed in a position of favour as compared with his competitors who receive no bounty. The foreign producer is practically protected by his bounty in British markets if his sugar is allowed to be imported in open competition with sugar which receives no bounty. The effect is exactly as if the bounty-fed sugar were admitted free and the other, receiving no bounty, were struck with a duty. To eliminate this inequality is the sole object of the countervailing duty. It is, in fact, a duty on bounties, not on sugar. It accepts the bounty for the benefit of the whole nation of taxpayers by putting it into the Treasury, and leaves the sugar to compete with all other sugar on equal terms. Therefore under a system of countervailing duties we do not lose the benefit of the bounty, we do no injustice to the bounty-fed producer, and we save the consumer from the danger to his interests arising from the effect of bounties in discouraging and eventually destroying his natural sources of supply.

None of these arguments can be used in favour of prohibition. The sugar is simply shut out and has to find other markets, where it will be sold for what it will fetch and will create the same injury to the consumer by discouraging and reducing the natural sources of supply as if it were admitted free into this country. The British producer will therefore suffer the same injury, and the British consumer will be deprived of the sugar. Of course, when the quantities are insignificant, as they are now, there is no deprivation to the consumer, but there is still an injury to the producer.

Recent experience in the United States furnishes a good illustration. Countervailing duties were established in exact proportion with the bounties given. Large quantities of bounty-fed sugar were from time to time imported under this system, but of course the price of that sugar had to be sufficiently low to permit of its being sold, duty paid, at the same price as other sugar. If the United States had prohibited the importation of bounty-fed sugar, the American consumer would have suffered from a temporary scarcity, and the bounty-fed sugar thus shut out, in its search for other markets, would have greatly aggravated the general situation of the world's

sugar market by a further depression in values. There would have been an artificially high price in America and a more intensely low price elsewhere.

Nothing could possibly prove more clearly that a duty to countervail a bounty furnishes an automatic method of restoring the free competition which bounties destroy.

GEORGE MARTINEAU