Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

NOTE

by

A. CORTAS

on

Policy Aspects of the Sugar Beet and Sugar Problems in Lebanon

1. Dr. Saab's report tackled the major problems of sugar beet cultivation in the Bekaa, the cost of production of sugar beet and he gave some recommendations concerning the future policy of the Government as related to its participation in the equity of the SFL Plant and its management.

2. This note could be considered as a supplement to Dr. Saab's report. It covers, mainly, the policy aspects of the problem and suggests some recommendations on the future orientation of the sugar policy in Lebanon. This note does not cover the problems of sugar refining where the Government policy appears to be very clear in the orientation of its policy which consists in more liberalization of imports and less interference in the market.

3. But regarding the policy of sugar produced from the sugar beet, it appears that the Government policy is being trapped between two major pressure groups:

4. On one side, the sugar beet growers who are fairly well organized in one national cooperative and well protected as compared to other farmers in Lebanon. However, as it is clearly specified in the report of Dr. Saab (page 1, para. 2), 92% of the sugar beet growers are tenant farmers and share croppers (1).

   Therefore, the subsidy to the sugar beet industry, which is very large in the case of Lebanon, will be largely reaped by those who control the fixed assets, and in this case, it is the landowner who will benefit most from such policy. This explains the fact that the land rent increased from LL. 56/dunum in 1962 to LL. 160/dunum in 1977 (2). This group could be called the first pressure group of the sugar industry in Lebanon. But it does not mean that they are the most powerful as compared with others as we will see in the next paragraph.

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(1) Although the report did not show what is the area covered by the tenants as compared with farmers who are full landowners. But this remark does not change too much the premises of the analysis because it is presumed that the area covered by direct land ownership is relatively small in sugar beet cultivation in the Bekaa, as compared with sharecropping.

(2) The second large owners of fixed assets in the sugar beet industry are those who have the transport facilities. According to Table 2, page 11 of Saab's report, transport costs to factory increased from LL. 7.6/dunum in 1962 to LL. 43.3/dunum in 1977.

5. On the other side, there are the owners of the SFL, who are the only owners of the sugar extraction plant in Lebanon. They enjoy a very powerful monopolistic position in the sugar industry in the country, and as a pressure group they could threaten farmers by delaying the reception of their produce, for one reason or the other, or by not working at all if they will be obliged to do that. The farmer, in this case, has no other alternative but to sell his produce as a feeding stuff for livestock.

6. This monopolistic position of the SFL owners explains a very important fact of the sugar beet industry in Lebanon. That is the vertiginous increase in the cost of extraction of sugar at the Anjar Plant, since 1959. In a period of three years this cost increased from LL.19.94/ton of sugar beet in 1972 to LL.41.63/ton in 1974 (1).

7. The cost of extraction in 1976 and 1977 are not known. The report of Dr. Saab did not mention the costs figures for these two years, although this could be deducted from the price figure to be paid by the OCBS (Government of Lebanon) to the cooperative of sugar beet producers, that is P.L. 175.50/Kg of sugar (2). If we deduct from this figure:

1) The price of sugar beet, due to farmers	PL 13 x 8.77 Kg =	114.01	
2) The handling and transport costs and fees to the Sugar Beet Cooperatives in the Bekaa		5.50	(3)
TOTAL	P.L.	119.51	

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175.50 - 119.50 = P.L. 56/Kg of sugar,

and when converted into cost per Kg of sugar beet we will reach the figure of P.L. 6.3/Kg or LL. 63/ton which is a very high figure indeed.

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(3) This figure should be checked out with the OCBS. It was P.L. 3.50/Kg of sugar in 1974.

8. This very high figure could be explained easily for the year 1976 when the total area under sugar beet did not exceed 8500 dunums. But in 1977, where the area is expected to be around 26000 dunums, the second largest after 1972, the cost of extraction should be much lower. The figure of LL.1755/ton is a wrong figure and should be corrected, either in the final FAO Report or by the OCBS when calculating the cost of extraction for the year 1977.

9. But in all cases, the cost of extraction which is charged by SFL as compared with its equivalent in other countries is high. And the OCBS is found every year in a dilemma between the farmers and the SFL, and cannot but accept a high cost of extraction which is almost the half of the international price of sugar at present. This could be accepted when the international price of sugar was relatively high ($ 1200 - $ 1500/ton) as it happened in the year 1973-1974. But now that the international price is around 4 300/ton, this should not be tolerated at all. In the final analysis the Lebanese taxpayer is the one who will pay the bill.

10. This is a very expensive policy for the Lebanese taxpayer and the Lebanese Government. It is, also, accentuated by another problem which is not yet solved in Lebanon that is the mystery of calculating the conversion rate between sugar beet and sugar. For one time it was 8.33/1, then it was 8.77/1; and the SFL wants it to be 9/1. It is true, it is related to the sugar content of the sugar beet, but in reality nobody knows the exact correlation between the two.

11. A small change in the conversion rate will have great repercussions on the returns to farmers and distribution of income between farmers and the SFL. The OCBS should control effectively the quantities of sugar, not only those delivered, but those which are really extracted by the SFL sugar plant every season, to be able to figure out the real conversion rate between sugar beet and sugar. Otherwise, it should stick to the old figure of 8.33/1 in order to protect the interests of farmers, or it should send a sample of sugar beet to France, England and Germany, every year, to check out and be sure about the quantities of sugar which could be extracted from one Kilogram of sugar beet. Such objective experiments should lead to a table establishing the exact correlation between conversion rates and sugar contents of sugar beet.

12. Another point which needs to be studied very carefully, every year, is the cost of extraction of sugar at the sugar plant of Anjar. This is directly correlated with the size of the sugar beet crop every year, and the other elements of the cost of extraction. However, it would be unfair to the Lebanese taxpayer to charge him a very high price because of the inefficiencies which might occur at the level of the farm or at the level of the sugar plant.

13. At the level of the farm it is true that the Lebanese farmer has reached one of the highest yields of sugar beet per dunum in the world. But we have to admit that this was achieved at a very high cost. This high cost is explained by some inefficiencies which should not be tolerated, such as: irrigation and other cultural malpractices,

high costs of labor and transport, etc... Furthermore, the policy of fixing the price to farmers on the basis of the cost of production was at the advantage of many inefficient farmers who could have been eliminated from the business, had the price been fixed at a lower level. In other words, in doing so, the Government is really protecting inefficient farmers who should have shifted to other crops, which would be more profitable for them and for the economy.

14. On the other hand, it is doubtful that the cost of sugar beet production is done through an objective survey, every year, by the OCBS. In the first place, such a task should have been conducted by an unbiased institution, like the Ministry of Agriculture or the Faculty of Agriculture at the American University of Beirut. The study should be based on a stratified, representative sample, by size of farms and by sub-regions in order to have a clear picture of the cost of production every year. Then this could be checked with other information and other data from Tell-Amara Research Station, the Litani Authority and the Experimental Unit which belongs jointly to the OCBS and the Sugar Beet Cooperative in the Bekaa.

15. Then, why is this policy discrimination in favour of sugar beet growers at the detriment of other farmers? It is true that other farmers growing wheat, tobacco and sunflower have benefited from the Government treasury. But to what extent the Lebanese Government can afford to persevere in this type of policy which, if continued, would hurt the taxpayer, jeopardize the development and investment plans of the Government, and would not benefit the tenant farmers in the long run.

16. Finally, why should the Lebanese Government pay a very high bill for some inefficiencies at the level of the SFL Plant? Even if the extraction cost is calculated every year correctly, which is very doubtful, the Lebanese consumer should not reach the point of paying a very high price for such subsidy (PL 60 - 70/Kg of sugar), which is almost 2/3 of the international price of sugar.

17. There are some other few points in the report of Dr. Saab which need to be reconsidered:

a) page 3, para 6, on the feeding value of the sugar beet tops. The report says it is equivalent to 220 kgs/dunum of barley, that is LL. 90/dunum. Dr. Saab reached this figure after using the price of barley prevailing this year in the market, which is exceptionally very high. On the other hand, the information on the nutritive feed value of the sugar beet tops could be correct for sugar content and its equivalent in barley, but the equivalence is not correct for the protein content of the sugar beet tops. In both cases, the figure of LL. 90/dunum is highly exaggerated, and by all means it should not be calculated on these bases but on the market value of sugar tops, which does not exceed LL.25 - 30/dunum.

b) page 9, para B: This recommendation concerning the future equity of SFL could not be accepted for many reasons:

(1) The experience of Lebanon in mixed ownership of public enterprises, jointly financed by the public and the private sectors was almost a disaster. Examples: the Mixed Society for Refrigeration in which the Fruit Office of Lebanon is a shareholder; the BCAIF. In all these cases the Government was not able to control the financial situation of these enterprises even with an equity higher than 10%; and Government participation was always an excuse for the other shareholders to benefit most from this participation.

(2) Such a policy is against the Government expressed policy of least interference in the private business.

(3) Then in what way the 10% equity will help the Government in correcting the actual facts of an awkward policy as described in this paper?

(4) It is doubtful that the farmers will be able to pay 45% of the ownership of SFL.

(5) In the actual administrative set-up of the OCBS, it is doubtful that the Government will be able to exert any effective control when represented at the SFL.

c) The figure of LL. 1755/ton of sugar for the year 1977 should be corrected as explained in paragraph 8 of this paper.

Recommendations

1. The recommendations of the report of Dr. Saab, except the last one (para B, page 9), could be accepted and submitted to the OCBS, the Ministry of Agriculture and the Green Plan for implementation and follow-up. But it is doubtful that they can be implemented by the present administrative and technical organization prevailing in these Government institutions. In this case, why not ask the Sugar Beet Cooperative of the Bekaa to ressuscitate the activities of the Experimental Unit which is being financed by the OCBS through the Cooperative and ask them to do some of the experiments recommended in Saab's report.

2. Recommendation para B - page 9 should not be submitted to the Government.

3. As an alternative policy, the following should be recommended:

   A. To continue studying the cost of production of sugar beet in the Bekaa, every year, according to the methodology specified in para 14 of this report.

   B. To continue studying the cost of extraction of sugar from sugar beet at the SFL plant, every year, through an unbiased institution, preferably FAO.

C. The results of these studies on the cost of production should be always checked and compared with their equivalences in other countries, and with the international price of refined sugar, taking the LDP (London Daily Price) after some corrections and adjustments, as a reference and criterion for comparison. In this case, the Government policy should follow one of these two lines:

<u>First case</u>: when the international price is higher than the cost of production of sugar in Lebanon as calculated in (a) and (b), the OCBS should not interfere in any activity of the sugar business. Sugar would be sold in this case at a higher price than its cost of production.

<u>Second case</u>: when the international price of sugar is lower than the cost of production prevailing in Lebanon, the OCBS will guarantee a fixed price to the Sugar Beet Cooperative in the Bekaa, based on the international price of sugar plus a subsidy fixed by the Council of Ministers which should not exceed 30% of the international price in any case.

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