



## Overproduction as a Key Trend in the World Sugar Economy

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*(Received 13 May 2020, Revised 22 June 2020, Accepted 02 July 2020)*

*(Published by Research Trend, Website: www.researchtrend.net)*

**ABSTRACT:** The sugar market is one of the most important world product markets. Nevertheless, the efficiency of its functioning is not obvious due to overproduction. This a long-term phenomenon affects both the income of producers and the sugar storage costs. The article presents the results of the study of the world sugar production surplus dynamics in 1960–2019. Using the method of enlarging time series intervals, the author has revealed a number of quantitative patterns, indicating that one of the key trends in the world sugar economy is the exponential increase in the surplus component of the sugar production and consumption balance. The major challenge of the study was to correlate the dynamics of sugar overproduction and the policies of energy producers, in particular the main producers of bioethanol. The wave-like dynamics of sugar deficit is revealed and the reasons for this phenomenon are given. The author has analyzed the causes of overproduction and its relationship with the bioethanol market. The novelty of the article is in the method of interval analysis of product markets with a further correlation analysis of two interconnected markets. The obtained results, specifically, the growth of sugar overproduction and unstable market supply, indicate the need for the global regulation of sugar production in order to improve the stability of the world sugar market. The major contribution of the study is in providing a statistical proof of the world sugar market inefficiency.

**Keywords:** sugar, world market, overproduction, surplus, trend, bioethanol.

**Abbreviations:** EU, the European Union.

### I. INTRODUCTION

Markets are based on production and consumption, as structural components of supply and demand, competition and trade policy, as well as price that reflects the integrated influence of numerous factors. The time series of consumption and production are interconnected. A long balance between production and consumption is possible only in an ideal market. In practice, the joint dynamics of these indicators creates alternating deficit and surplus situations, disrupting market equilibrium. If a product is produced and not consumed, then it burdens the market with surpluses and puts downward pressure on prices, reducing the economic feasibility of production. At the same time, this situation is characteristic of an isolated market for goods that cannot be used in the production of another product. Otherwise, the surplus of raw material production can be utilized for the production of another goods, substitutable by raw material. Deficit leads to a reverse situation and is more preferable for producers. The world sugar market is a classic example of the nonobvious market functioning efficiency. According to statistics, an annual sugar surplus tends to increase. Its volume has already exceeded 10 million tons or more than 5% of the global production [1]. The problem of the sugar production surplus significantly aggravated in India, the EU, and Russia [2–4]. The aim of the article is to determine the real situation in the world price market; this allow the author to develop proposals to improve the world market conditions. The author's task is to prove the limited efficiency of the world sugar market and the need for its regulation. The article proves that

the overproduction of sugar is one of the factors that positively affects the production of biofuels, and although over production is a problem of the global regulation of markets, it is not critical. Sugar stocks are growing today, which creates the problem of unnecessary costs for its storage in conditions of falling world prices [5].

### II. LITERATURE REVIEW

Sugar has been the subject of study and discussion for a long period of time. Key works used in this study include [6], which describes the main factors affecting supply growth in the sugar market and discusses such important technical features of sugar production as soil fertility, regional distribution, the relationship with biofuel production, etc. Hence, [6] provides a solid ground for studying the sugar supply dynamics on a global scale. Another important work is [7], which discusses sugar production and its relation to sustainable growth in less developed countries; the author states that sugar provides numerous opportunities for both local communities and less developed countries, forming the basis for the conclusion that the overproduction of sugar may be the consequence of the rush for revenue [8] covers Fiji as one of the sugar producers and puts forward the idea of the competitiveness of the sugar industry, which leads to the hypothesis that the combined production of sugar and ethanol is more efficient. The relationship between sugar and ethanol markets is given in [9], based on which the author of this study puts forward the hypothesis further. The main areas of interest in the sugar market researches are

trade barriers [10] and the impact of external factors on the sugar market [4]. At the same time, data on the global market efficiency are scarce, and the main sources do not provide an up-to-date information. This study focuses on missing aspects and enlarges the study field presented [5], concretizing its results; the hypothesis of this study follows from the idea of the market concentration expressed [5]. The patterns of their balance dynamics, especially the surplus component, were poorly studied, which makes the in-depth study of this economic phenomenon relevant. This study focuses on the analysis of short intervals and does not relate the demand for fuel and biofuels [11]. The author suggests that the difficulties in balancing the global supply and demand are determined by the global market inefficiency, rather than tariff regulation, as supposed [12].

### III. MATERIALS AND METHODS

The study is based on an analysis of the causes and consequences of sugar surplus in the world market. The author believes that a statistical surplus is not a real surplus, that is, the excess of the produced product is used for the production of bioethanol, a substitute by raw material [13]. To prove this hypothesis, the author conducts a regression analysis of sugar production and consumption according to the below method and analyze the correlation of sugar overproduction and bioethanol production. The conditions of hypothesis proof ( $H_0$ ) are proposed below (1):

$$\begin{cases} Corr > 0.8 \rightarrow H_0 = true \\ 0.5 < Corr < 0.8 \rightarrow H_0 = conditional \\ Corr < 0.5 \rightarrow H_0 = false \end{cases} \quad (1)$$

If the given conditions are true, it leads to the following conclusion: the overproduction of sugar leads to the accumulation of its surpluses; to avoid the increase in the costs of its storage, bioethanol is produced; bioethanol production is not the ultimate goal of sugar overproduction. A false condition means that sugar production is weakly regulated and it is necessary to revise the global system of its regulation (for example, as mentioned earlier, through WTO mechanisms).

The author uses a sample of statistical data for the period of 1960–2019. This period comprises a wide range of socio-economic situations and factors responsible for qualitative and quantitative changes in the world sugar economy. This allows to reduce the influence of externalities that are not included in the models on the analysis result.

The time series of production and consumption are cyclical and contain phases of increase and decrease, which is associated with the quasiperiodic dynamics of the market economic activity. Statistical data on the world sugar production and consumption are well described by linear relationships with a constant growth rate (about 2%). At the same time, in the shorter period, other dependencies are observed, in particular, the wave nature of the growth and decline of production. Having reached the maximum level of values, the amplitudes of fluctuations in the volumes of production and consumption change the sign to the opposite and, in the process of cyclic change, tend to their average value. Thus, the author characterizes the time series of sugar production as linear in the long term and having wave dynamics in the short term.

To process the time series of data, the author has used the method of enlarging the intervals between them, which, with fewer variables, allows to more clearly identify the main patterns of their change. Within the enlarged intervals, the values of the indicators of annual series contained in them are calculated by simple summation. In this study, to refine the analysis, the 60-year period was divided into six enlarged 10-year intervals, which were assigned numbers 1–6. Excel and Gretl were used for the time series analysis.

### IV. RESULTS

Let us consider the main trends in the development of the sugar market in the above listed countries. In India, over the past eight years, due to an upset of the sugar balance stability, production surplus reached about 50% of annual consumption, which required the government to introduce a special comprehensive program to fight against this phenomenon. In the EU countries, the abolition of production quotas in 2017 led to the loss of control over production volumes, which result in a structural imbalance in the national sugar economy and the sugar industry crisis difficult to handle [2]. To date, Russia did not introduce the regulation of sugar production, however, while maintaining the dynamics of overproduction, this step will be necessary to avoid the loss of raw materials due to the market restrictions. The main factors affecting the sugar production are as follows:

- 1) Natural conditions (the more favorable, the greater the volume of production);
- 2) Producers' reaction to demand (in the world market, it is usually characterized by a lag of several years);
- 3) Trade barriers (it is known that the Doha round of negotiations did not resolve the contradictions in the trade in agricultural goods [14], into which sugarcane falls);
- 4) The state of the biofuel market (sugarcane serves as a raw material, including for the production of bioethanol);
- 5) The state of the global financial market (sugar is one of the important goods on world commodity exchanges and the dynamics of its production is determined also by the use of relevant financial instruments) [6].

Thus, the volume of sugar production is determined by a large number of factors, many of which are external to the world sugar market.

The time series of the world sugar production and consumption by years and their enlarged intervals are presented in Fig. 1 (basic data of the sample by year) and Fig. 2.

The considered tabulated series are approximated by the linear equation (2):

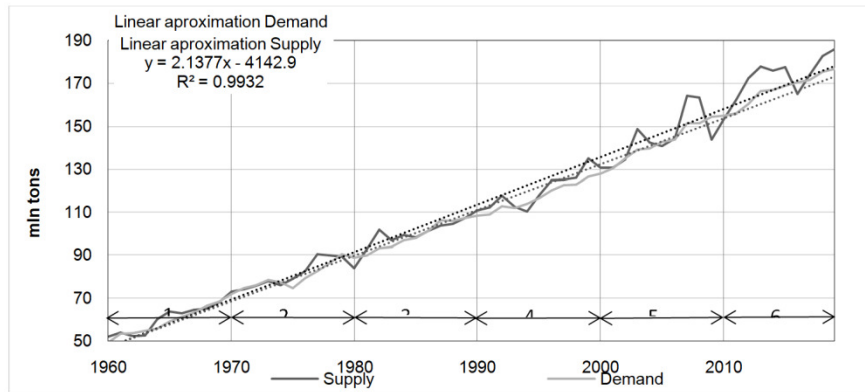
$$y = vx + c \quad (2)$$

where  $y$  is the function (production or consumption),  $x$  is the argument (time),  $v$  is the growth rate,  $c$  is a constant and  $R^2$  is the approximation confidence coefficient.

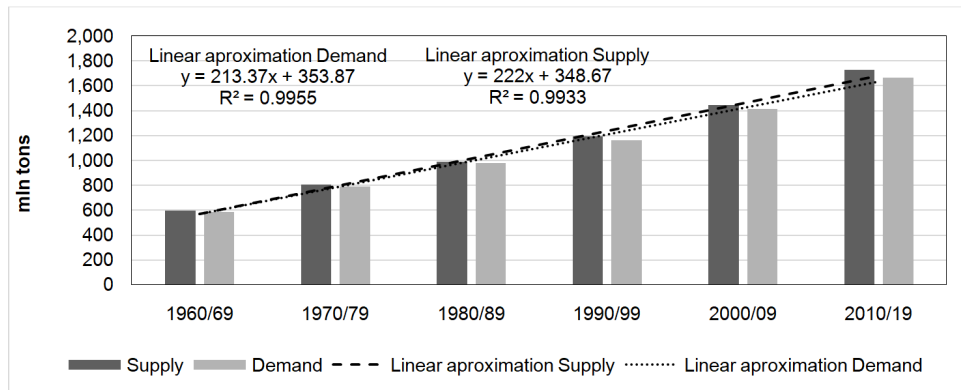
The trends in the basic data of the sample of production and consumption are diverging, since they have different constant values of the growth rate  $v$ : for production – 2.22 million tons/year, for consumption – 2.14 million tons/year. The difference between them is small – 0.08 million tons/year, however, over 60 years it amounted to 4.8 million tons, which corresponds to the length of the segment between the ends of the two

trends in 2019 (therefore, average excess of supply over demand in every period was about 4%). The trends in Fig. 2 duplicate the basic data of Fig. 1, but with more accurate values of  $R^2$ , which is characteristic of the method of enlarging intervals. Fig. 3 shows the time series and trends of the world production and consumption for each interval (No. 1–6) of the sample. As can be seen, the values of  $\nu$  coefficient are not the same for different intervals of the sample. For

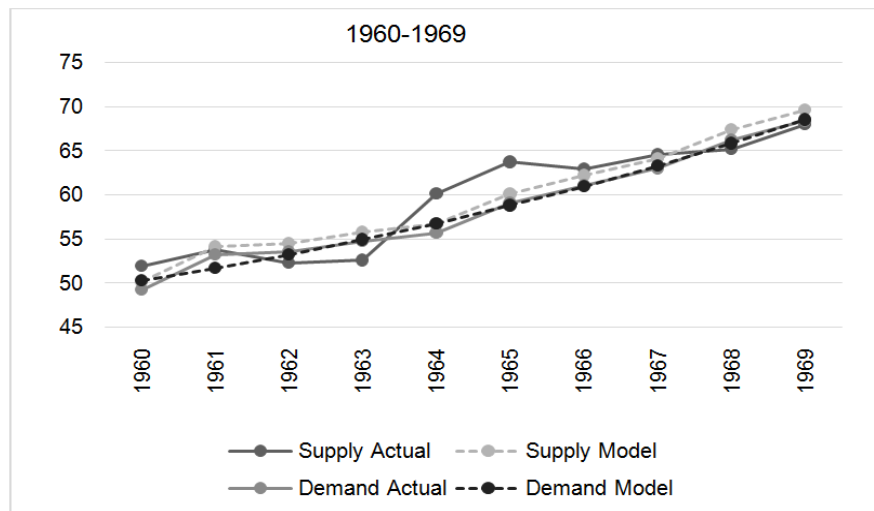
production, their values have a spread in the range of 1.9–2.6 million tons/year and deviate from the values of  $\nu$  trend of the basic data sample (2.22 million tons/year) by -0.32 (14.5%) and +0.38 (17.1%). For consumption, the corresponding values are: the spread in the range of 1.71–3.13 million tons/year, deviations from the base sample (2.14 million tons) by -0.43 (20%) and +0.99 (46%).

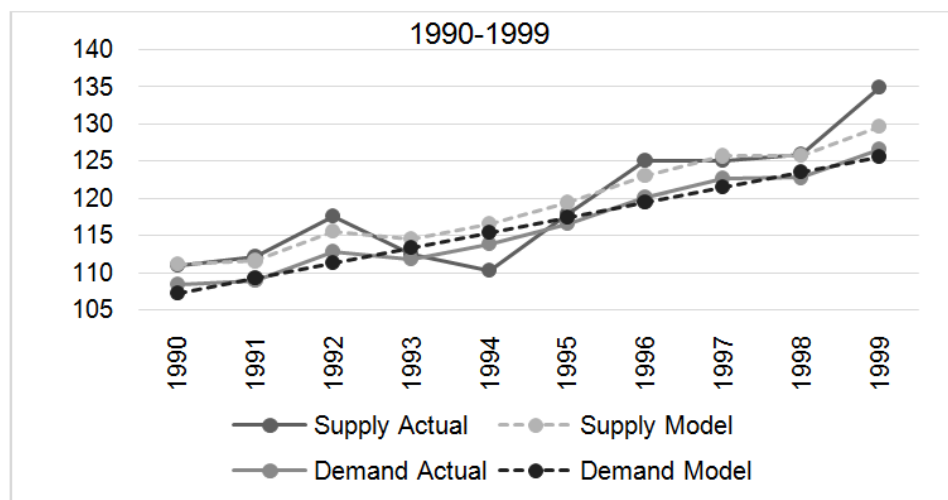
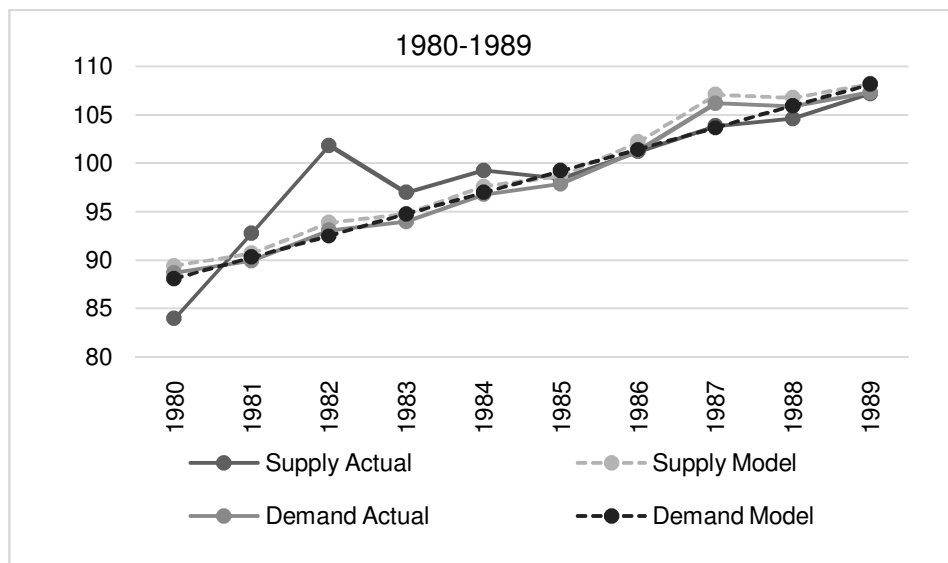
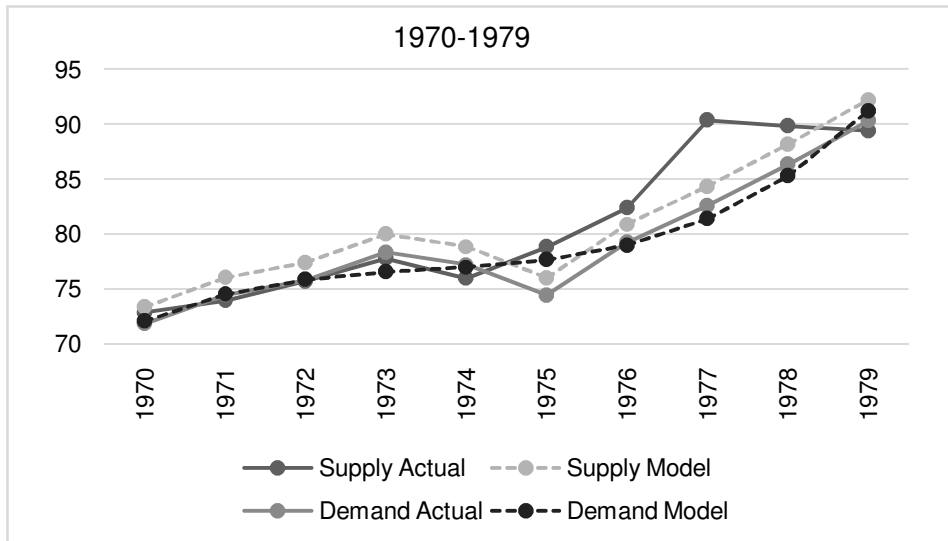


**Fig. 1.** Time series of the world sugar production and consumption, 1960–2019 (million tons, raw value), based on [15].



**Fig. 2.** Time series of the world sugar production and consumption by decades.





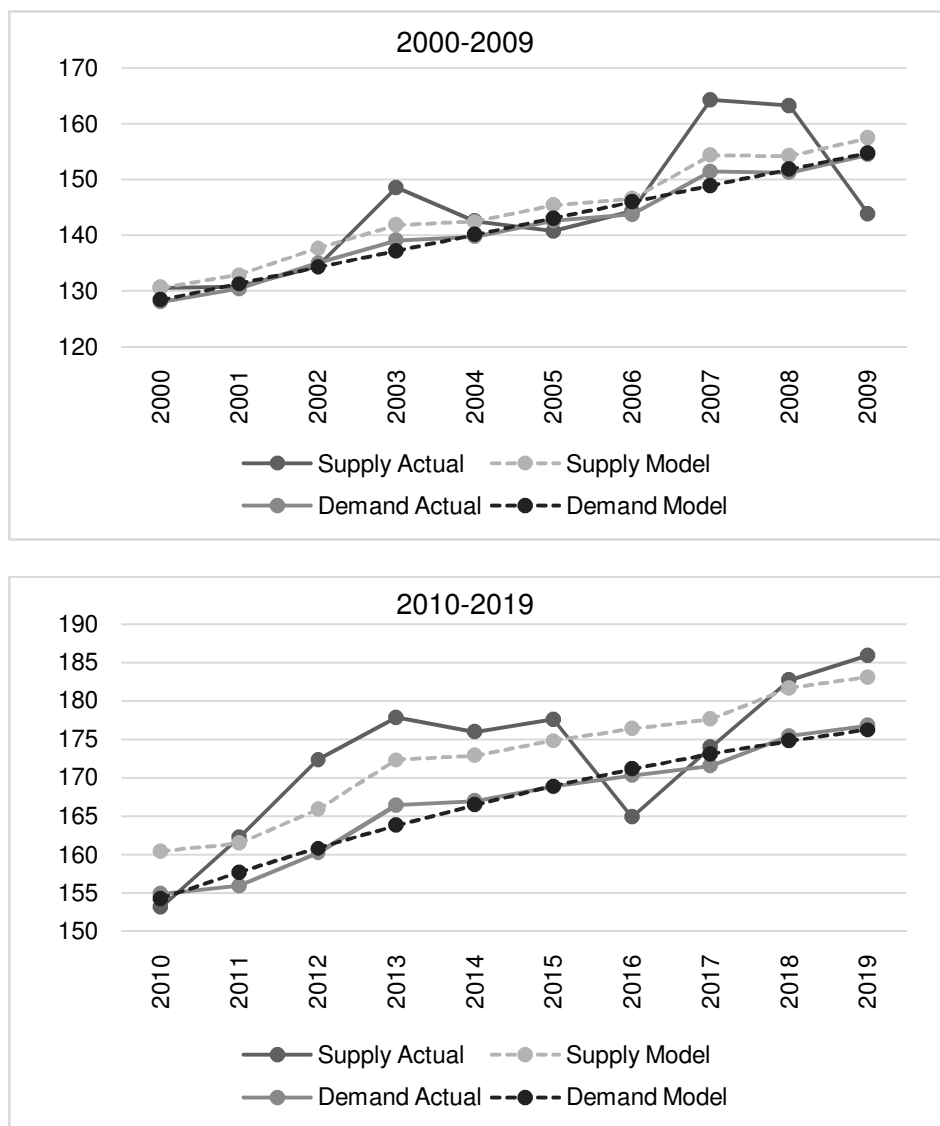


Fig. 3. Dynamics of the world sugar production and consumption time series over decades, 1960–2019, million tons.

Table 1: Data of regression analysis of 10-year intervals.

Years	Regression for Supply (S)	Regression for Demand (D)	R <sup>2</sup> (S)	R <sup>2</sup> (D)
1960–1969	$S = 1.01751S$	$D = 0.082i^2 + 1.114i + 49.1563$	0.98	0.99
1970–1979	$S = 1.02106S$	$D = 0.073i^3 + 4.922i^2 - 0.992i + 68.084$	0.94	0.94
1980–1989	$S = 1.00839S$	$D = 2.231i + 85.81$	0.98	0.99
1990–1999	$S = 1.02456S$	$D = 2.043i + 105.179$	0.99	0.96
2000–2009	$S = 1.01957S$	$D = 2.925i + 125.48$	0.99	0.98
2010–2019	$S = 1.03554S$	$D = -0.122i^2 + 2.789i + 150.61$	0.99	0.97

Data for the models used in Fig. 3 are presented in Table 1.

Analysis of the regression equations by year reveals a number of trends:

- 1) Steady dependence of demand on supply with small fluctuations in linear growth rates within 2%;
- 2) Unsteady dynamics of demand, characterized by polynomial dependence in the intervals No. 1, 2, 6 and linear in the intervals No. 3–5;
- 3) High reliability of all models (R<sup>2</sup> not lower than 0.94);
- 4) Low dispersion of the index variable coefficients in the decade-long models and the coefficient in the model

of 1960–2019; this indicates a relatively stable market dynamic.

The regression analysis data suggests that the sugar market in the supply–demand aspect is well regulated. Linear growth coefficients in all intervals are less than 4% (excess of supply growth over demand is observed in every period); therefore, only half of the sugar surplus (deficit) in the market can be justified by the insufficient quality of the global market regulation. Summarized data on sugar surplus/deficiency are presented in Table 2.

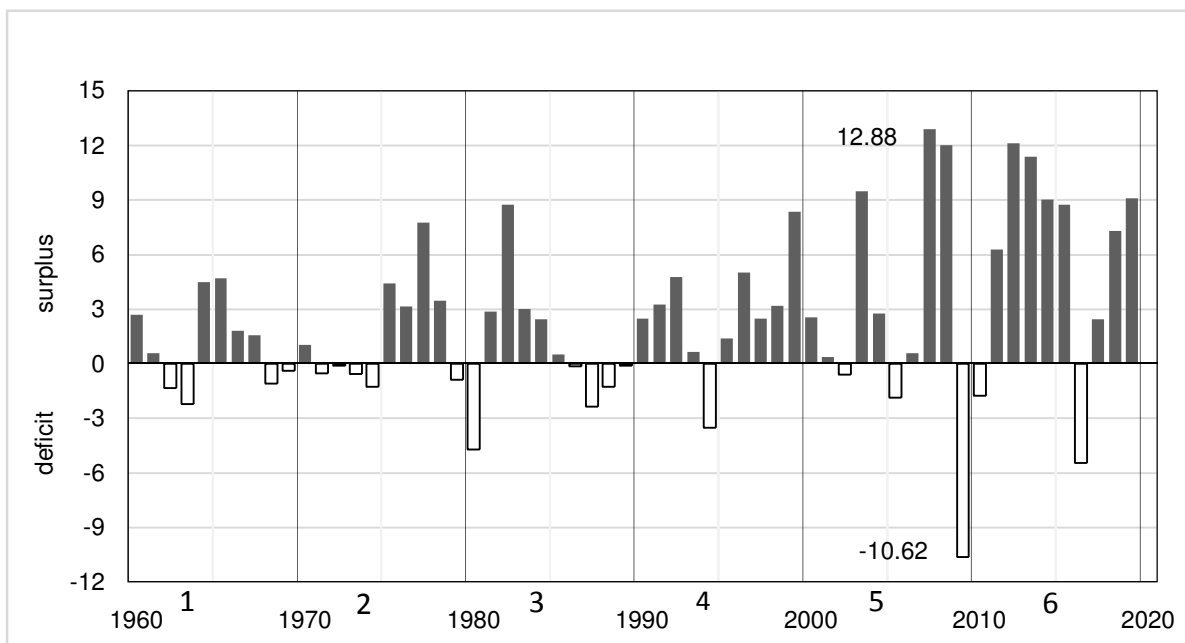
The trend equation for the deficit is characterized by a clear seasonality, and therefore, for a more adequate simulation, the author has introduced a dummy variable (f) with two alternating values of 0 and 1 (the first period is zero).

The obtained data suggest that a significant difference in the form of polynomial and linear regression equations for enlarged intervals No. 1–6 and the growth rate for intervals No. 3–5 is due to the nature of the balance (surplus–deficit) and its trend, which may differ

from linear. Also, the need to introduce a dummy variable is defined as the effect of the market response lag on surplus / deficit, since the lag on the sugar market, as mentioned above, is about five years. Thus, in the 10-year period, sugar surplus is compensated by a decrease in sugar production, although, as Fig. 4 shows, this compensation is not enough to establish a market balance. To test these assumptions, the author considers the production and consumption balance dynamics over the studied period (Fig. 4).

**Table 2: The world sugar production and consumption: dynamics of the time series characteristics and trends.**

Production and consumption balance							
Years	1960–2020	1960–1969	1970–1979	1980–1989	1990–1999	2000–2009	2010–2019
Surplus, mln tons	191.46	15.75	19.80	17.55	31.46	40.56	66.34
Trend equation	$y = 2.751x^2 - 9.852x + 24.671$						
Deficit, mln tons	-40.69	-5.02	-3.33	-8.58	-3.51	-13.06	-7.19
Trend equation	$y = -1.4875x + 5.6975f - 4.424$						



**Fig. 4.** The world sugar production and consumption balance, 1960–2019, million tons.

The total surplus (the sum of all positive values of the balance for 60 years) is 191.46 million tons, or 2.8% of the total sugar produced during this time. The total deficit is 40.69 million tons, or 0.6% of the total sugar consumed in 60 years. The ratio of total surplus and deficit values is 4.7 (191.46/40.69).

The analysis shows that the number of surplus years is 40, and their frequency of occurrence is 2/3 or 67% of the entire sample. The number of deficit years is 20 or 1/3 of the sample. Over 60 years, the average amplitude of cyclic fluctuations in absolute production growth relative to the trend line was 6.4% (from +3.5% to -2.9%). The average annual surplus on a 40 surplus years basis is 4.79 million tons (191.46/40), on a 60 years basis it is 3.19 million tons. The average annual deficit on a 20 deficit years basis is 2.03 million tons (40.69/20), on a 60 years basis it is 0.68 million tons.

Therefore, the production and consumption balance is surplus by the total duration of surplus phases by 67% and by the ratio of the surplus component of the balance

to the total sugar produced over 60 years by 2.8%. The balance is deficit by the total duration of its phases by 33% and in relation to the total sugar consumed over 60 years by 0.6%. Within 60 years, there were 11 surplus phases lasting from one to seven years and 10 deficit phases from one to four years.

Fig. 5 shows the dependence of the total values of production surplus and deficit in each of the six enlarged intervals on their numbers.

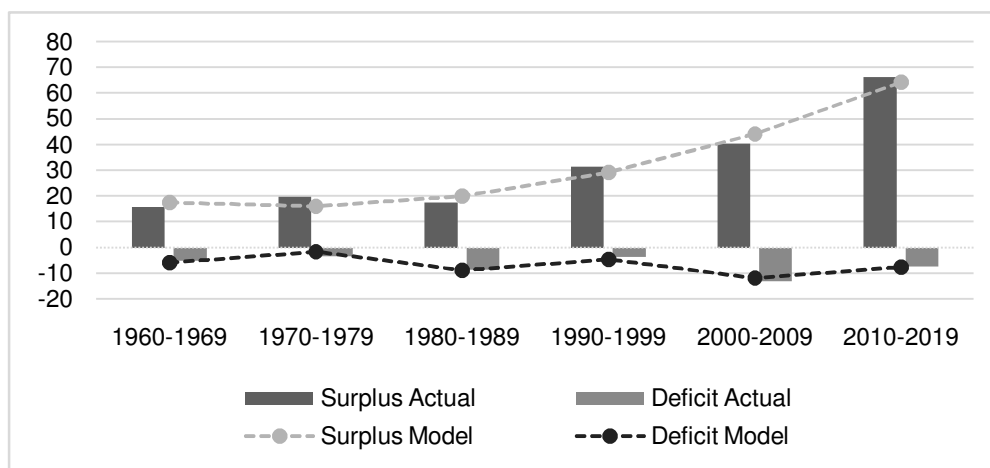
The surplus trend is well described by the exponential equation  $y = 10.311e^{0.283x}$  with the confidence level of the approximation  $R^2 = 0.90$ . This allows to forecast a surplus for the period 2020–2029 in the amount of 75 million tons with an average annual value of 7.5 million tons.

By extrapolating the trends to 2020–2029, it can be said that this period will be characterized by a high sugar surplus, which is evident from the hyperbolic surplus trend, and one of the largest deficits of the studied period, which is characteristic of the zero value of the

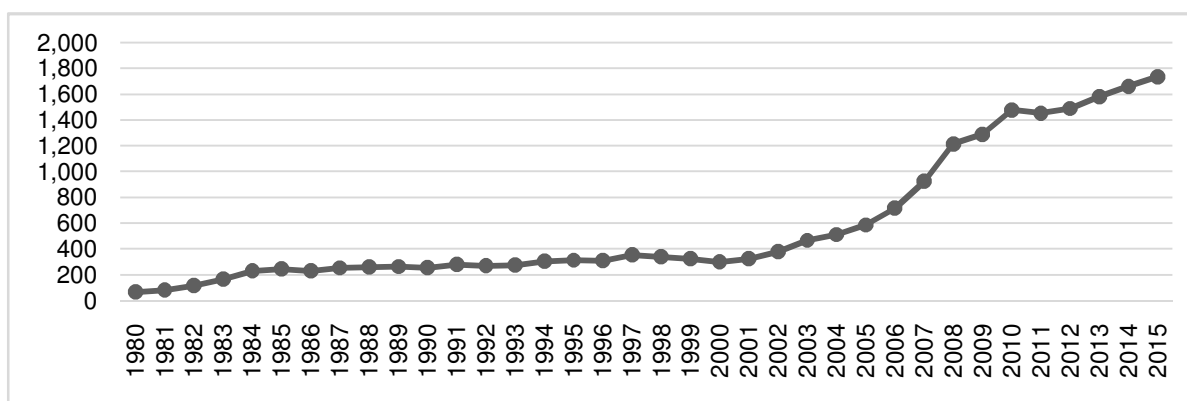
dummy variable and the wave-like growth of the deficit trend.

Thus, with a sufficient level of certainty, one of the trends in the world sugar economy that emerged in the 21st century is the growth in sugar production, outstripping the consumption, which forms mostly surplus trade balance.

As mentioned earlier, the author hypothesizes that such a situation derives from a change in the role of sugar raw materials in fuel and energy industry, especially in bioethanol production, the dynamics of which is presented in Fig. 6.



**Fig. 5.** The dependence of the total surplus and deficit values in 10-year intervals of the dynamic series of production on their number in the 60-year sample, mln tons, 1969–2019.



**Fig. 6.** Bioethanol production volume, Mb/d (based on [16]).

The results of correlation analysis conducted on enlarged intervals are presented in Table 3.

**Table 3: Correlation analysis results.**

Period	1980–1989	1990–1999	2000–2009	2010–2019	1980–2019
Correlation	0.8	0.73	0.72	0.68	0.91

The data of correlation analysis show that in each subsequent interval the correlation is lower than in the previous one and the second condition H0 is valid for each interval, i.e. the sugar surplus and its raw materials are used for bioethanol production, although it is not a priority product for which the raw materials were produced (this also is indirectly confirmed [9]). Nevertheless, for a longer interval, bioethanol production may be qualified as a target product.

## V. DISCUSSION

The obtained results demonstrate a close relationship between the sugar and bioethanol markets, but also

prove the assumption that the sugar production regulation is not efficient enough because there are cheaper raw materials for biofuel production (proving in this way the results presented). These results also indicate the need to regulate sugar production volumes in order to improve the stability of world and national sugar markets.

Implementing such regulation is a difficult task, however, there already exists a tool for solving this problem. Thus, the dominant players in the world sugar economy are only several largest sugar-producing countries, including Brazil, India, the EU and Thailand with more than 50% of the world production [6]. They create the majority of commodity assets on the supply side and control the market through subsidized trade policies aimed at supporting their domestic sugar economies. Further, these countries are important suppliers of biofuels to the world markets. The growing volumes of bioethanol produced by these and other

countries may prove to be in demand globally as a regulatory factor and a powerful support incentive for many sugar producers, since energy prices have a steady upward trend. Brazil's ethanol demand is expected to rise from 26.7 billion liters to 47.1 billion by 2028. The transition to ethanol in the 2018/19 season led to decrease in sugar production in Brazil by 9 million tons to a 12-year low. Brazilian sugar giants (Biosev, Usina Coruripe) and smaller companies increase investments in fuel production, planning to use 90% of sugarcane raw materials for ethanol and only 10% for sugar. China is also actively implementing its national program for the use of ethanol in fuel nationwide by 2020 [17].

Within the framework of the WTO, the idea of using ethanol and other diversification products as tools to achieve an acceptable level of balance between production and consumption should be promoted, setting appropriate quotas for ethanol production and coordinating the actions, first of all, of the dominant producers on the world ethanol-sugar market [9]. The use of such tools will help to solve the problem of liberalization of the world sugar market. The mechanisms for regulating the world trade using the WTO tools are of low efficiency; there are no effective methods to limit the production of sugar by non-governmental organizations. In this regard, the most rational solution today is a more active use of biofuels in production, primarily in agriculture, in order to reduce the costs of sugar producers and the excess stock storage costs.

## VI. CONCLUSION

A study of the historical retrospective of the production and consumption balance on the world sugar market in 1960–2020 allowed to reveal the following patterns.

1. The world sugar production surplus in the 21st century has become chronic. It is described with a good degree of reliability by a hyperbolic trend with an accelerating growth with respect to the linear production trend.
2. The production and consumption balance in the total duration of the phases within a time interval of 60 years was surplus by 67%, that is, for 40 years. The ratio of the surplus component of the balance to the total sugar produced during this period was 2.8%. The balance was deficit by 33% in the total duration of its phases and by 0.6% in the ratio of its volume to sugar consumption over 60 years.
3. During the studied period, there were 11 surplus phases with a duration of one to seven years and an average duration of 3.63 years for the entire period, and 10 deficit phases with an average duration of 1.82 years.
4. At the present stage, the key variable that forms the balance of sugar supply and demand is production, the regulation of which is becoming an increasingly urgent task of improving the stability of sugar markets.
5. The biofuel market significantly impacts the production of sugar, in many respects it balances the excess of its production, but even in this form the world sugar market is inefficient.

It should be emphasized that the obtained results apply only to the studied period. Given the volatility of sugar markets under the influence of numerous factors, as

well as the characteristics of the exponential function growth, its use for long-term forecasting at a certain time interval may be incorrect.

## V. FUTURE SCOPE

The article presents opportunities for future biofuel market researches in terms of the global sugar production. In addition, the author gives forecasts based on autoregression methods, it would be interesting to develop a model for sugar production, depending on external factors such as natural conditions, sugar and sugar substitutes consumption, biofuel production.

**Conflict of Interest.** No.

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