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ON THE  
ECONOMIC OPERATION  
OF THE  
FOREIGN SUGAR BOUNTIES.

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NOTES - GENERAL HAYNES

## ON THE ECONOMIC OPERATION OF THE FOREIGN SUGAR BOUNTIES.

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AN intricate economic question has annexed itself to the sugar industry of Great Britain and her tropical possessions. It may be stated thus. Great Britain, with ports freely opened to all the world for supplies of sugar, thereby secures to consumers their right to obtain one of the recognised necessities of life from wheresoever Nature will most readily yield her bounty in response to the efforts of human labour.

So far the great principle which vindicates that commercial policy which is commonly designated as 'Free Trade,' has been upheld. State artifice has, however, intervened, with the potent hand of protection, to prevent the ascendancy of Nature's law of production—the survival of the fittest—in determining the channels of the sugar industry. Continental Europe, by means of State aid, variously applied, has become the bolstered-up competitor of the tropics in the production of a commodity of tropical origin; and consequently a necessary of life, especially so for the young, still remains at almost prohibitory prices for the poor abroad.

Had European skill made up for the deficiencies of a less congenial soil and climate, so that sugar was thereby enabled to be brought to the markets of Europe at a less cost than sugar from the tropics, the discovery of the German chemist, Margraaf, that sugar could be obtained from the beetroot, would have resulted in a profitable employment of the zone of cultivation in Europe. But at no time does it appear that the manufacture of beetroot sugar could be successfully carried on if exposed to the full natural force of tropical production. Hence continental Europe has been bound to interpose State

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protection to prevent Margraaf's discovery being relegated to the domains of laboratory experiments.

This protection has been given in various ways. In France, colonial tropical sugars were for many years handicapped by heavy duties being placed upon them. Such a course operated for many years so injuriously to the French Colonies, and, by the exemption of beet-sugar from taxation, so detrimentally to the revenue, that the special State advantages in favour of beetroot sugar, as against French tropical sugar, had to be materially curtailed. McCulloch states, in his 'Dictionary of Commerce,' that in 1842 it was proposed, in order to get rid of the difficulties in which the culture of beetroot had involved the country, to grub up the plantations, paying the planters 14,000,000 francs as an indemnity for their loss. Protection, however, could not be withdrawn, but, staying its hand against the French Colonies, contented itself, until about 1862, by securing the monopoly of the French market, for the benefit of the French home and colonial sugar producers.

The Right Hon. W. H. Smith, in a Treasury Minute, summing up the proceedings which had taken place in connection with the Sugar Convention entered into between Her Majesty's Government and the Governments of France, Belgium, and Holland, in 1864, states that in 1862 the French Minister of Finance noticed that large sums were annually drawn from the Exchequer to pay bounties on refined sugar exported from France to other countries. Here we have the first evidence of another form of protection, which has become potent enough to overpower English free traders in their own market. At the present time, bounties on exports of raw and refined sugar to this country are obtained in a greater or less degree from the Governments of France, Belgium, Holland, Austria, Germany, and Russia.

The bounty is obtained in France through the drawback or return of taxes allowed on exportation of refined sugar. This drawback is greater than the duty paid, because it is calculated upon a supposed yield of refined sugar considerably less than the actual yield obtained from the raw sugar upon which the excise duty had been paid prior to its entering the Refinery.

In France the sugar industry is divided into two branches—the manufacturers, who convert the saccharine product of the beet into raw sugar, and the refiners, who work up the raw product into refined sugar. The manufacturers work under the supervision of the Excise, the raw beet sugar being

charged with duty as it leaves the manufactory. But the French refiner does not work under the Excise; consequently when 100 kilos. of refined sugar is about to be exported, a return of duty is claimed in respect of the estimated quantity, or fiscal equivalent of duty-paid raw sugar from which the refined was extracted.

The principle of assessment may be thus illustrated. If, say 125 kilos. of raw sugar yielded say 100 kilos. of refined, the duty paid on the 125 kilos. ought to be returned upon the exportation of 100 kilos. of refined; but if the 100 kilos. of refined were obtained, not from 125 kilos. of raw sugar, the supposed fiscal equivalent, but from 110 or 112 kilos. of raw sugar, the exporter in receiving the duty back on 125 kilos. would be obtaining more than the duty paid, and this would constitute an artificial but material inducement to export refined sugar to other countries. The greater the export the greater the bounty thus obtained. This principle of assessment of drawback results, as may plainly be perceived, in the bounties on exportation. The bounty has been estimated by those engaged in the sugar trade at 3s. per cwt. This may seem too trifling a sum to be recognised as the element of destruction to a vast British industry. But to no other cause can the decline of the English refining trade during the last ten years be attributed. The decline began with bounties, and will end when bounties are abolished or neutralised. In the aggregate, however, the subsidy drawn from the French Exchequer in aid of the exportation of refined sugar amounts, according to the estimate of a French statesman, to some 800,000*l.* per annum. The competition which ensues between our own and foreign producers on the English market results in the English consumer obtaining a considerable share of the foreign bounty as well as its equivalent from the pockets of English producers, in the form of sugar artificially cheapened, so that a particular form of foreign protection appears at first sight to be beneficial to this country. But the benefit to the consumer which arises from his being able to purchase sugar below the price which the article would command if all protection were abolished, is counterbalanced by disadvantages to the nation at large, which in the consideration of the question generally from an economic point of view cannot be disregarded. Had these bounties been considered a national advantage to this country, it is not likely that both the late and present Governments would have used every diplomatic effort to abolish them. The Treaty of 1864 was to that end solely.

It is beyond all question that the late Government fully

appreciated the injurious consequences of these foreign bounties, refusing to recognise, as of any validity in favour of their continuance, the artificial cheapness which such form of protection tended to produce in this country.

It should be noticed that this Convention of 1864, for the abolition of bounties, thus approved of by a Liberal Government, and for many years energetically supported in the object aimed at by the present Government, contained a clause whereby the contracting nations might come to an agreement to levy a countervailing duty against nations continuing this form of protection, to the manifest injury of their competitors, who might not be willing or able to allow such artificial inducements. Notwithstanding the energetic remonstrances of Lord Derby, during his period of office, to the French Government, the Convention of 1864 expired unperformed either in letter or in spirit. The clear and able despatches of Lord Derby, aided by the unremitting diligence of Lord Lyons, had considerable weight with the French Government, in bringing them to the conclusion that refining in bond was the only effectual mode of stopping export bounties, and the Assembly of France ratified this conclusion, alike necessary to England's interests and to the French revenue, by voting in favour of refining in bond. But difficulties arose in carrying out this principle, which were aggravated by interested influences, as well as by the impression abroad that England would not levy against other nations giving bounties such a duty as would prevent refiners exporting from France without a bounty being placed at a disadvantage on our markets. It is evident that if the duty were collected when the finished product left the Refinery, no duty need be taken on sugar destined for export, and consequently no return of duty would be due to the exporters. Thus would vanish all bounties arising out of the chemical and fiscal difficulties of assessment of drawbacks which serve both to yield and conceal this form of protection. In the limits of this Paper it would be impossible to follow in detail the records of our diplomatic efforts. Lord Derby, Lord Lyons, and many of our leading representatives abroad have been in almost daily correspondence upon this subject for some years.

The vitality of this form of protection is largely due to the general impression of foreign Governments that England will not adopt efficacious measures against bounties, and therefore no continental Government can abolish them whilst other Governments continue them, and thus the abolition of bounties seems made dependent either upon an international unity of

action, which past experience shows is hardly within the bounds of realisation, or upon our adjusting the 'equities' between rival competitors by levying duties against such as give bounties.

The English market, with its ever-effectual demand for sugar, is the *optata arena* of foreign producers. It affords an outlet for that over-production of beet-sugar which is the dangerous consequence of State stimulus. But it is apparent to all who study the question that until what Mr. J. P. Harriss-Gastrel, in his able report to our Government on the sugar industry of Austria, calls the 'Equity of International Taxation' can be established, the Governments of Europe will not have any respite from their efforts to solve one of the most difficult and important of all commercial questions.

It must not be supposed that France alone gives bounties. Austria exports her raw beet-sugar by means of a heavy bounty. Mr. Harriss-Gastrel says: 'Probably nearly half the amount of the drawback is a real bounty on export.' In Germany, Mr. Nicholson reports, for the information of our Government, 'that the late increase of the export bonus on raw sugar will be transformed into a fixed and settled premium on export.' As regards Russia, we learn from Mr. Michell's reports that bounties were established in 1872, and increased in 1875 to favour exportation. In Italy, Mr. Kennedy reports that no drawback is granted on the exportation of sugar. The sugar industry which existed in the once Austrian provinces of Italy was State-supported, and was extinguished when the provinces became Italian, and State support was withdrawn.

Thus, in 1878, it is manifest that the forces of protection still sustain the great beetroot-sugar-production of Europe. Moreover, that such protection has become aggressive, and assails our producers in their own markets. It is in the markets of the world that producers seek to recoup themselves the cost of production. All great centres of industrial production have a staying power in their resources of capital and credit, which enables them to withstand those natural fluctuations in prices which arise from the varying conditions of the ratio of supply and demand. But although the contingencies, arising from natural causes, can be reduced by experience to some law of average which may be relied upon, the disturbing influence on market values of the arbitrary force of State intervention cannot be safely estimated for commercial purposes. It is a disturbing force of unknown and potent, and the more potent because unknown, power. This disturbing force is now in full operation on the sugar markets of Europe. Operating on our

own markets, it works backwards through every ramification of our sugar industry. It crosses the Atlantic, and causes the British capitalist to pause ere he invites the swarthy coloured labourers of the West Indies to gather in the prolific bounty of tropical vegetation.

Thus England loses surplus wealth, which, coming from her own land to her own citizens, is as a gift from nature to the nation—an economic consequence which has not received the attention it deserves in that department of State which was instituted to watch over the commercial and industrial welfare of the colonies.

Foreign protection, in the form of export bounties, inflicts, moreover, a grievous wrong upon English producers; they are compelled to provide out of their own profits—already adjusted to a minimum by free competition with the whole world—the equivalent of these foreign bounties; unless they can do this, they must withdraw from their own markets. It is this exaction which has closed so many English and Scotch refineries, and retarded cultivation in our West Indian possessions. But the consumer has bought sugar a trifle cheaper, and thus a condemned and pernicious form of protection has actually raised in some minds an apparent conflict of interests between English consumers and English producers. Herein lies the Gordian knot of the whole controversy. Some writers in the press urge that we are foolish indeed to quibble at the Continent taxing itself to give us sugar below cost price. These writers do not point out that State aid to foreign exporters operates as a tax on English producers, payable out of their own profits and wages, and that it is the competition of English producers which compels the foreign protectionists to yield up, on the English market, a greater or less proportion of the bounty to the English consumer. The freedom of production, in its exemption from all State hindrance or aid, is as essential a principle as the freedom of distribution and exchange. If the producers on the Continent have equal or greater natural advantages than our own producers, no protection can be necessary to enable continental producers to compete with us in the English market. If, on the contrary, the stimulus of State protection is required to enable foreign sugar to be exported to this country, the position of our producers is as much reversed in the English market as if they were naturally inferior to their continental rivals. It must not be supposed that foreign Governments view with indifference the disastrous consequences which will ensue to their own revenue, and to their own consumers, if this costly stimulus to exportation of

their own indigenous sugar is to be continued for an indefinite period. Great indeed is their responsibility in permitting an artificial trade to widen and deepen its channels year by year. Hitherto the fate of this foreign export protection has depended on the forbearance of our Government. What if our Government were to intimate that on and after a given date, and so long as bounties were continued, they would be intercepted at our ports by a countervailing customs duty! One farthing per pound levied against raw beet and refined sugar exported under a bounty would either stop bounties or else yield us a revenue derived from foreign States; and if bounties were increased, the duties would increase also, and thus we might permit foreign States to contribute to our revenue. Not one farthing of such a duty would fall upon English consumers. It would all be paid out of the bounty it intercepted, the duty of course ceasing with the cessation of the bounty.

It must be remembered that continental Europe seeks on our markets an outlet for that surplus production of beet sugar, which is the disastrous consequence of artificial stimulus. But we, as a nation, have this interest, viz., to see that our tropical possessions are not restricted in their power to supply us with their surplus wealth—the very gift of nature's sun and soil.

It is not difficult to perceive that if the international sugar production and trade of Europe were permitted to follow its natural course, our tropics would yield a tribute to this country of ever-increasing annual value—a tribute from nature distributable to every citizen, by increasing the national capital, and, through such increment, the wage fund and purchasing power of the community. The West Indies and British Guiana have long poured an unceasing stream of wealth into this country, which, but for the adverse influence of European protection to beet sugar, and the continuance of slavery in Cuba, would rapidly increase.

England, therefore, has this paramount interest in the international sugar trade, viz. the establishment of the fiscal system of Europe on such a basis that no protection to foreign competitors shall close British markets to her own producers. The attempts to ally the interests of English consumers with foreign protectionists, by the *ad captandum* view before referred to, has been so far successful hitherto, that our Government, although repudiating the view, has nevertheless hesitated to adopt the only efficacious means for securing the equity of international taxation, viz. the imposition of countervailing duties against foreign bounties. The consumers of to-day do not enjoy England without 'impeachment of waste,' and have,



therefore, no right to insist on the maintenance of an artifice, however profitable to them, which tends to deprive consumers of to-morrow of their right of access to the natural, and therefore cheaper, sources of supply.

This Paper has treated the question upon economic considerations alone. Social questions of high import, are, however, involved in the displacement of large masses of skilled labour from natural channels of industrial employment. The general commercial depression over us at this time operates on the sugar trade as well as on all our industries. But be there commercial depression or commercial prosperity, a 'constant quantity' of abnormal disadvantage will press upon our sugar industry so long as foreign export bounties continue to influence the natural price of our markets. The whole of our tropical sugar production is rendered dependent upon the caprice of Europe. Our sugar supply is being concentrated in an area so limited that the meteorological fluctuations of the crop seasons cause violent fluctuations in our markets.

The subjects of Her Majesty engaged in the sugar industry demand no more than that the free trade ports of England shall lead to free trade markets for all comers, and shall not be closed to England's merchantmen and her industrial army of sugar producers by means of foreign State protection to foreign producers.