FAIRTRADE FACTSHEET

WHY THERE IS NO FAIRTRADE MINIMUM PRICE FOR SUGAR

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INTRODUCTION

Fairtrade sugar was introduced in the early 2000s with a small number of producers in Paraguay, Peru, the Philippines and Costa Rica, but sales did not really start to take off until 2008 when UK-based sugar giant Tate & Lyle - part of the multinational ASR group - began marketing Fairtrade sugar. Fairtrade sugar farmers in tropical and sub-tropical countries only grow sugar cane - sugar beet, which dominates the European and North American markets, is grown mainly in cooler regions.

European demand for Fairtrade sugar created a boom for supply chains located in Africa, the Caribbean and Pacific (ACP) and Least Developed Countries (LCDs). Under the European Union sugar regime, sugar producers in EU Sugar Protocol countries received guaranteed prices above the market price, and preferential access to EU markets.

However, as part of the EU Common Agricultural Policy (CAP) reform, the EU sugar production quota system was abolished in September 2017. Guaranteed imports of cane sugar from ACP and LDCs were replaced by lifting caps on EU beet sugar, impacting both prices and access to Europe as a key market. Fairtrade producers in those countries faced the prospect of losing their major Fairtrade market.

FAIRTRADE MINIMUM PRICE

The Fairtrade Minimum Price (FMP) is a floor, below which the price of a product cannot fall - a safety net which gives farmers some degree of security when global market prices drop. It covers the average costs of sustainable production whilst giving producers access to markets.

However, unlike most other Fairtrade products, there is no FMP for sugar. Until 2009, the majority of Fairtrade sugar origins had never had an FMP, while a small minority did. After close consultation with the producers themselves, we decided to unify our approach by having no minimum price for Fairtrade sugar anywhere in the world. Many producers told us that complex pricing rules, processing and export models in different countries meant they could actually be disadvantaged by having a minimum price, and that it is more effective for sugar prices to be negotiated. We regularly review this decision but so far, there has been no compelling evidence that reintroducing a sugar FMP would benefit the majority of sugar producers.

DIFFERENT PRICE SETTING MODELS IN DIFFERENT COUNTRIES

In some countries, including Cuba, India and Thailand, the government sets sugar prices, but with only a small portion of sugar being Fairtrade certified, there is very little leverage to influence government prices. In Paraguay, payments to farmers are adjusted based on the final price of organic sugar at the end of the harvest and sales cycle.

REVENUE SHARING

In Costa Rica, and most ACP and LDCs, a revenue sharing model operates under which farmers and mill operators split the sale price between them. The percentage varies according to country, ranging from 60/40 to 78/22 (producers/millers). In this system, Fairtrade farmers benefit because the industry aims to get the highest possible price for their sugar; they get a percentage of all sales whether local, regional or export and for all sugar types at different price levels, specifications and by-products; and the model applies to revenue from both Fairtrade and non-Fairtrade sales. In addition, Fairtrade producers continue to get the additional benefit of the Fairtrade Premium.

CANE vs SUGAR

It's important to remember that the value of sugar is much higher than the value of the cane from which it produced. Most cane farmers rely on mills to turn their cane into more valuable sugar. Once the cane becomes sugar, prices vary according to the type and quality - for example special unrefined brown sugar is more valuable than processed white sugar. The value of the cane depends only on its volume and sucrose content, whereas the value of sugar depends on many factors including type, quality and specification. Growing the cane is only the first step in a supply chain which adds value at each step. Many Fairtrade sugarcane farmers see added value in being sugar producers, not just cane growers.

If Fairtrade farmers received a minimum price for their cane, they would potentially lose out on revenue share not only from the sugar itself, but also from by- or co-products such as ethanol, molasses and bagasse. Cane processors are obliged to be transparent about cane-to-sugar conversion rates, which means farmers can see how much added value they get from revenue sharing.

DIFFERENT PRICES FOR DIFFERENT SUGARS

The picture is further complicated because of different sugar standards and specifications. Only two types of sugar (white refined and raw for refining) are traded on international markets, but even white refined attracts different prices depending on a whole range of quality and market variables.

All other types - including organic, raw, non-centrifugal and special sugars such as Muscovado, Demerara or Panela - are priced according to supply and demand. Special raw brown sugars attract higher prices than white refined sugar. The higher the price, the more revenue share goes to farmers.

CONCLUSIONS

On balance, the evidence suggests that Fairtrade sugar producers benefit more from the revenue sharing system than they would from an FMP.

- The revenue sharing model is more flexible and reacts faster to price fluctuations than the FMP.
- Multiple sugar types and prices, and lack of standardisation, means setting an FMP for sugar would be unworkable and potentially damaging to the interests of Fairtrade sugar producers.
- Excluding Fairtrade producers from the revenue sharing model could deprive them of revenue from the value-added sales and price differentials of different sugar specifications.
- Prices for organic and special unrefined raw sugars follow a supply and demand structure unsuited to an FMP.
- An FMP for white refined sugar could realistically only be applied to cooperatives which process their own sugar, such as those in Costa Rica.

Fairtrade continually strives for solutions which increase benefits for sugar farmers, but we operate in the real world economy and the current low, volatile global value of sugar must be taken into account. In that context, the fixed Fairtrade Premium has proved to be a successful business model, with 100 percent of the Premium being paid directly to small-scale sugar producer organisations.

QUESTIONS OR COMMENTS?

Please contact:

Ricardo J.R. Guimarães | Head of Pricing, Standards and Pricing Unit | r.guimaraes@fairtrade.net
or
Monika Berresheim-Kleinke | Global Products Manager | m.berresheim@fairtrade.net