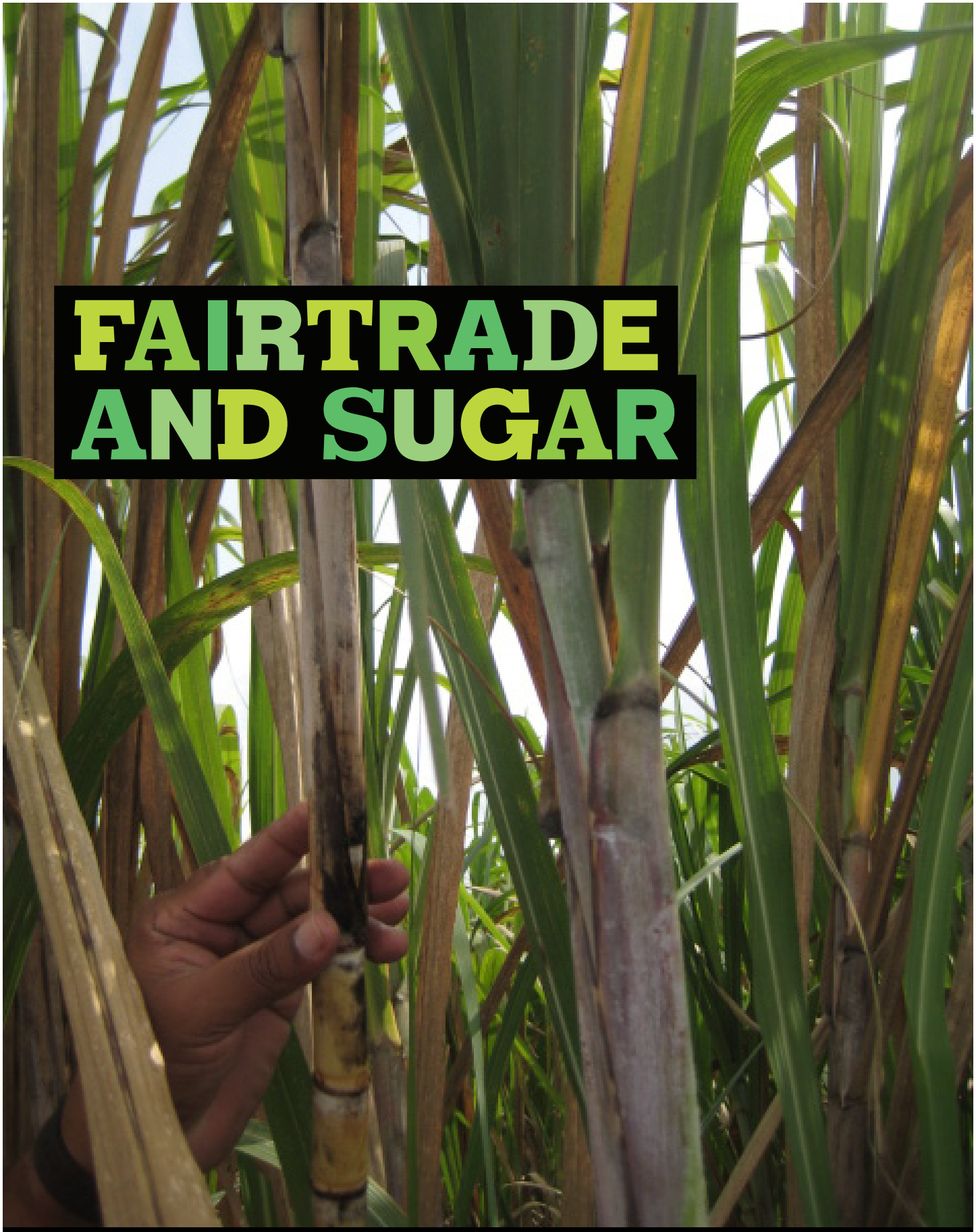
FAIRTRADE AND SUGAR



Commodity Briefing

January 2013

FAIRTRADE FOUNDATION

FAIRTRADE AND SUGAR

INTRODUCTION

Around 80 per cent of the worlds sugar is derived from sugar cane, grown by millions of small-scale farmers and plantation workers in developing countries. This briefing offers an overview of the sector and explores why Fairtrade is needed and what it can achieve. We hope it will provide a valuable resource for all those involved with, or interested in, Fairtrade sugar, whether from a commercial, campaigning or academic perspective.

Fast facts: the sugar lowdown

- Sugar is one of the most valuable agricultural commodities. In 2011 its global export trade was worth $47bn, up from $10bn in 2000.
- Of the total $47bn, $33.5bn of sugar exports are from developing countries and $12.2bn from developed countries.[1]
- The sugar industry supports the livelihoods of millions of people – not only smallholders and estate workers but also those working within the wider industry and family dependents.
- Around 160 million tonnes of sugar are produced every year. The largest producers are Brazil (22%), India (15%) and the European Union (10%).[2]
- More than 123 countries produce sugar worldwide, with 70% of the world's sugar consumed in producer countries and only 30% traded on the international market.
- About 80% of global production comes from sugar cane (which is grown in the tropics) and 20% comes from sugar beet (grown in temperate climates, including Europe).
- The juice from both sugar cane and sugar beet is extracted and processed into raw sugar.

- World consumption of sugar has grown at an average annual rate of 2.7% over the past 50 years. It is driven by rising incomes and populations in developing countries.
- The top five consumers of sugar use 51% of the world's sugar. They include India, the EU-27, China, Brazil and the US.
- Brazil plays an important role in the global sugar market, as the world's largest sugar producer, the world's major exporter and one of the highest per capita consumers, at around 55kg a year.

- Global sales of Fairtrade sugar in 2011 reached 185,000 tonnes – up 66% on 2010.
- UK sales of Fairtrade sugar in 2011 reached almost 101,000 tonnes – up 5% on 2010.

- UK sales of Fairtrade sugar[3] in 2011 were worth £464m – up 21% on 2010.
- More than 37,000 sugar cane farmers from 15 countries benefit from Fairtrade sugar.

1 Figures are for 2011, and include raw sugar, molasses and honey. UNCTAD, '3.2.A: Export structure by product: world', *Handbook of statistics 2012*, from p. 159
2 USDA FAS *Sugar: World Markets and Trade*, May 2012
3 This figure represents the sugar part of all Fairtrade products containing sugar

1. SUGAR: GROWERS AND BUYERS

1.1 Main producing countries

Raw sugar is derived from both cane sugar and sugar beet. Brazil and India are the world's two largest sugar producers. Together, they have accounted for over half the world's sugar cane production for the past 40 years. The EU is the third-largest producer and accounts for around half the world's sugar-beet production.

Figure 1: World sugar production (1,000 tonnes)

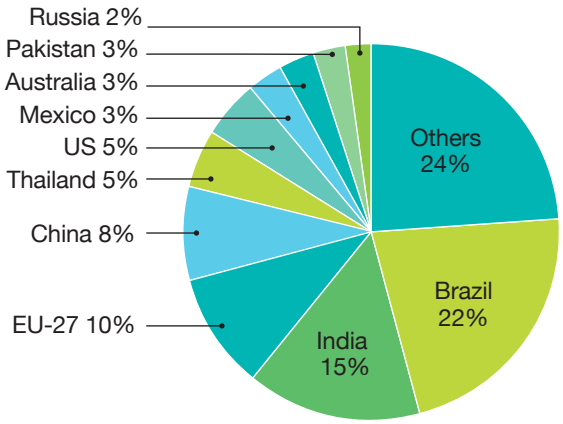
	2010-11	2011-12	2012-13 (forecast)
Brazil	38,350	36,150	37,800
India	26,574	28,830	29,750
Thailand	9,663	10,415	10,850
Mexico	5,495	5,194	5,448
Australia	3,700	3,900	4,500
Pakistan	3,920	4,320	4,120
EU-27	15,667	17,461	15,790
Russia	2,996	5,500	5,050
China	11,199	12,324	13,065
US	7,104	7,521	7,779
Others	36,974	39,352	40,301
TOTAL	**161,642**	**170,967**	**174,453**

sugar cane producer | sugar beet producer | cane and beet producer

Source: USDA FAS Sugar: World Markets and Trade, May 2012

World production of raw sugar is forecast at 174.5 million tonnes for 2012-13 – a year-on-year increase of 2 per cent.[4] By 2018, production is projected to reach 202 million tonnes – slightly higher than the projected consumption of 198 million tonnes.[5]

Figure 2: Largest producers of raw sugar as percentage of world production, 2007-12

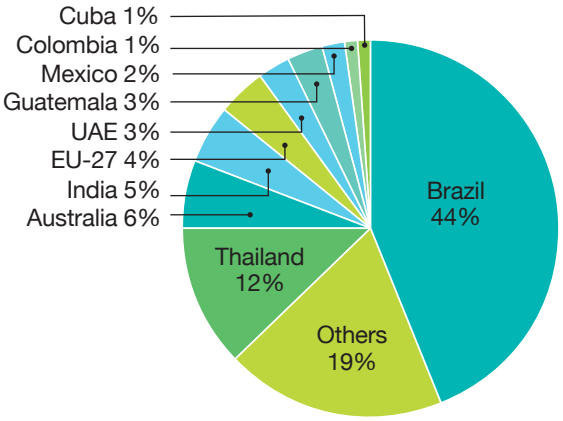


Source: USDA FAS Sugar: World Markets and Trade, May 2012

1.2 Main exporting countries

World exports of raw sugar are forecast at 58 million tonnes for 2011-12 – 1 per cent higher than the previous year – led by Brazil (24.6 million tonnes) and Thailand (9 million tonnes).[6]

Figure 3: Largest exporters of raw sugar as percentage of total exports by volume, 2007-12

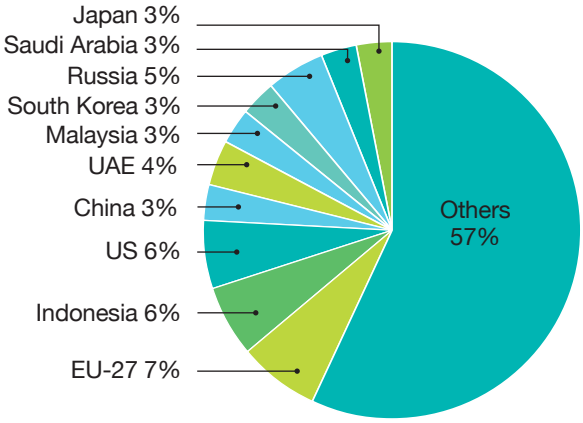


Source: USDA FAS Sugar: World Markets and Trade, May 2012

1.3 Main importing countries

Imports of raw sugar are forecast at 49 million tonnes for 2011-12. The EU, US and Indonesia are the leading importers, at around 3 million tonnes each per year. China is poised to join them, its imports more than doubling from 972,000 tonnes in 2007-08 to 2.4 million tonnes in 2011-12, but future imports are likely to be offset by increased production.

Figure 4: Largest importers of raw sugar as percentage of total exports by volume, 2007-12



Source: USDA FAS Sugar: World Markets and Trade, May 2012

4 USDA FAS *Sugar: World Markets and Trade*, May 2012
5 European Commission, *Agricultural commodity markets outlook, 2009-2018*, July 2009, p. 70
6 USDA FAS *Sugar: World Markets and Trade,* May 2012

1.4 Consumption

World consumption of sugar has grown at an average annual rate of 2.7 per cent over the past 50 years. Sugar consumption has been declining in developed countries – partly due to the availability of substitutes and concerns about obesity and health. At the same time, it has been increasing in developing countries, which now account for around 70 per cent of world sugar consumption,[7] driven by rising incomes, population growth and changes in diet.

Production deficits in 2008-9 and 2009-10 were followed by surpluses in 2010-11 and 2011-12 as sugar crop areas expanded on the back of higher prices.[8] A further substantial surplus is forecast for 2012-13. Surpluses stem predominantly from world production exceeding consumption and export availability exceeding import demand.

The use of sugar in the development of ethanol as an alternative fuel is also an important factor in the sugar supply-and-demand equation. Brazil is both the largest exporter of sugar and the largest producer and consumer of ethanol. Any decision that Brazil takes to expand ethanol production – for example, when a large sugar crop is forecast – can affect the balance of supply and demand in the global sugar market.

About sugar

A brief history

Sugar was an expensive luxury item enjoyed only by the wealthy upper classes until the 15th and 16th centuries, when the Spanish and Portuguese expanded sugar cane production to Puerto Rica, Cuba and Brazil, from where it was shipped to Europe for refining.

In the 17th century the British established large-scale sugar plantations in the West Indies, making affordable sugar available to the masses. But the sugar trade will be forever tarnished by its colonial heritage of inhumanity and exploitation. Profits from the trade helped build the British Empire, but the trade was able to flourish only with the expansion of the Atlantic slave trade, which saw almost 1 million African slaves brought to the Caribbean to live, work and die in the notoriously brutal conditions of the sugar plantations.

The use of sugar beet as a new source of production was developed in Germany in the early 19th century. By the end of the century, production had spread across Europe and beet had overtaken cane as the primary source of sugar there.

How sugar is produced today

Around 80 per cent of all sugar is derived from sugar cane – a tall, bamboo-like grass that grows to a height of 6m (20ft) and is largely grown in tropical countries. The remaining 20 per cent comes from sugar beet – a root crop resembling a large parsnip, grown mainly in the temperate zones in the North. In general, the costs of producing sugar from sugar cane are lower than for sugar beet.

- Sugar cane is cultivated for its sucrose content and requires lots of sun and water. At harvest, the stems are cut mechanically or by hand, then transported to sugar mills for processing. Processing involves crushing and grinding the stems to extract the cane juice, thickening it into a syrup, and then boiling it. This produces sugar crystals, which are dried before storage. The raw cane sugar is then refined, usually in the consuming country.
- Sugar beet is dug out of the ground, transported to factories and sliced into thin chips to extract the juice, which is boiled to form sugar crystals. The centrifugal sugar (white sugar) is ready to use or can be stored before being refined.
- Refining is the process of turning the raw sugar into food-grade sugar, such as granulated white and brown sugar, sugar cubes and icing sugar. The largest world markets for sugar are confectionary, bakery products and soft drinks.
- By-products derived from sugar cane include rum, molasses (which is used to produce syrups for the food industry), ethanol (motor fuel), bagasse (woody cane fibre used as biofuel for mills, pulp for paper industry and building materials) and filter cake (animal feed and fertiliser).

Sugar and health

Sugar is an integral part of our diets and our lives. Consumed in moderation, sugar can provide some of life's great pleasures. Concerns about obesity and health are critically important, but few of us would choose to live entirely without sugar.

7 FAO, *Food outlook*, May 2012 pp. 41-42
8 FAO, *Food outlook,* May 2012 pp. 41-42

2. CHALLENGING TIMES FOR THE SUGAR SECTOR

The global sugar sector faces many challenges, including liberalisation of the EU sugar market, volatile world prices, rising production costs, competition from alternative sweeteners, the impacts of climate change, and food security and poverty in the communities that grow sugar cane. This briefing focuses on sugar cane farmers, who are responsible for producing most of the world's sugar but benefit least from its trade.

2.1 Economic importance of sugar

Sugar is one of the most important commodities, and is produced and consumed around the world. Around 160 million tonnes of sugar are produced each year on millions of small farms and plantations in approximately 123 countries. Around 70 per cent of production is consumed in domestic markets and only 30 per cent is traded on the international market. This is, in effect, a surplus or residual market, where excess production is sold – often below the cost of production. In 2011 the world trade in raw sugar was worth $47bn, up from $10.2bn in 2000. Of that total, $33.5bn worth of exports were from developing countries, with $12.2bn from developed countries.[9]

For many countries, sugar is one of the most important sources of national income. For example, sugar accounts for 70 per cent of Cuba's exports and 40 per cent of exports from Belize.

In Fiji, sugar is the highest revenue earner after tourism and garment manufacture, accounting for 40 per cent of merchandise exports and 12 per cent of gross domestic product (GDP). The sugar industry employs around 25 per cent of Fiji's workforce, with many more indirectly dependent on it for their livelihoods.[10]

Africa accounts for only 6 per cent of world sugar production, but sugar is produced in more than 40 African countries and is of great economic importance.

Sugar cane cultivation is labour intensive and an important source of rural employment. The Brazilian sugar cane industry employs over one million people, or nearly a quarter of the country's total rural workforce. In South Africa – Africa's largest producer – around half a million people depend on sugar for a living.[11] Sugar employs around 15 per cent of workers in Swaziland and two-thirds of rural workers in Mauritius. In Malawi, sugar is the most important export after tea.

2.2 Competition from alternative sweeteners

The food and beverage industry is increasingly using artificial sweeteners such as aspartame and sucralose, and natural sweeteners such as stevia, as cheaper or lower-calorie alternatives to regular white sugar. The most important alternative sweetener is high-fructose corn syrup (HFCS), also called glucose-fructose syrup. This highly processed substance has been accused of being more harmful to humans than cane or beet sugar because it contributes to weight gain by affecting normal appetite functions.

2.3 International sugar trade and market interventions

India

The Indian government controls sugar exports and approves export licences only once it has been assured that there is sufficient production to meet domestic demand. When production was hit by a poor monsoon in 2009, India turned to the international market for imports and sent global prices soaring. Conversely, a bumper crop in 2011-12 saw the government approve 3 million tonnes of exports that year, pushing global prices down.

The United States

The US Sugar Program, authorised by the 2008 Farm Bill, supports domestic beet and cane production by restricting sugar imports using a tariff rate quota, and by limiting the amount of sugar that processors can sell domestically. Critics argue the $4bn subsidies paid by consumers to US farmers keep prices artificially high and threaten US candy manufacturing jobs. Sugar imports from countries that have signed regional free trade agreements (for example, with North America or Central America) receive preferential treatment and enter at nominal or zero duty, while excluded sugar pays higher duty rates.

The European Union

The EU is the world's biggest producer of beet sugar and the principal importer of raw cane sugar for refining. Ongoing reforms to the way the EU manages sugar production and imports are having significant consequences, both for producers and processors.

9 Figures include molasses and honey; UNCTAD, '3.2.A: Export structure by product: world', Handbook of statistics 2011, from p. 159
10 J. Gawander, 'Impact of climate change on sugar-cane production in Fiji', WMO Bulletin 56 (1) January 2007
11 South African Sugar Association, 'Industry overview', www.sasa.org.za

Since 1968, as part of its Common Agricultural Policy (CAP), the EU operated a system of production quotas, high internal prices and export subsidies for its domestic sugar beet producers, with import tariffs to limit competition. The aim of this policy, called Common Market Organisation (CMO) Sugar, was to protect domestic producers from lower-cost cane sugar producers and to supply the EU market from its own production.

The policy also led to overproduction, resulting in subsidised surplus sugar being dumped on world markets[12] and depressed global sugar prices. The total EU production quota of 13.3 million tonnes of sugar is divided between nineteen Member States. Because of uncertainty about weather conditions at the time of planting, farmers build in a margin to cover any shortfall. When conditions are favourable this can lead to a surplus known as 'out-of-quota' sugar which has strict rules governing its use. It can be exported up to the EU's annual WTO limit of 1.35 million tonnes, sold for biofuel or other industrial non-food uses, or counted against the following year's 'quota' sugar.

For political and economic reasons – to cover shortages, protect cane refiners and support economic development – from 1975 the EU Sugar Protocol gave preferential market access to 18 African, Caribbean and Pacific (ACP) countries, eight of which are classified by the UN as Least Developed Countries (LDC). For these countries, sugar has significant socio-economic importance in providing direct and indirect employment for millions of people. The protocol guaranteed duty-free quotas for 1.3 million tonnes a year and high prices equivalent to those paid to EU beet farmers. It also allowed duty-free access for 300,000 tonnes a year on average from ACP countries and India under the Special Preferential Sugar agreement. An additional quota of 85,000 tonnes, mostly from Brazil and Cuba, was agreed with a reduced duty of €98 per tonne. In 2001, the EU introduced the Everything But Arms (EBA) arrangement, which gave goods from all 48 LDCs duty-free, quota-free access to the EU. Import duties of €339 per tonne for raw sugar and €419 per tonne for white sugar were applied to imports outside these preferential arrangements.

Reform of the EU Sugar Protocol began in 2006, with full liberalisation of the EU sugar market scheduled for 2015, including abolition of production quotas. Reform was driven by the need to reduce EU budgets and align the sugar market with the EU's overall move towards a market-oriented CAP, which would also enhance the competitiveness of EU sugar production by eliminating unprofitable production capacity. Reform was also driven by the World Trade Organization Disputes Panel ruling that illegal sugar export subsidies, quotas and preferential ACP country tariffs must be phased out.

So, between 2006 and 2010, the EU had to reduce domestic production and also gradually reduce guaranteed beet prices and reference prices for imports of in-quota white and raw sugar by 36 per cent. This shift cost ACP sugar exporters an estimated €462m in lost export earnings.[13] From 1 October 2012, price guarantees for ACP sugar were abolished and replaced with a negotiated market-related price.

Reduced prices have forced many domestic producers – and some foreign ones – out of business. Beet processors received generous compensation to voluntarily reduce their production in line with new quotas and to finance restructuring. The EU has committed to providing ACP producers with financial compensation, known as 'sugar protocol accompanying measures', to help them invest in restructuring their sugar industries. LDC producers continue to enjoy duty-free, quota-free access under EBA arrangements, and ACP producers will continue to enjoy duty-free access for a quota of up to 3.5 million tonnes a year until 2015. After this, the only way APC governments will be able to maintain access for poor farmers on the same terms is if they sign WTO-compliant Economic Partnership Agreements (EPA) with the EU.

Under the reforms, ACP and LDC sugar producers are likely to face a smaller market in the EU that they can access only at a lower price, with greater competition within ACP countries and from lower-cost countries such as Brazil. Cane production in most developing countries is more competitive than EU beet sugar because of lower wages and farm costs. But if farmers want to remain viable and continue taking advantage of European market opportunities, their industries will need to:

12 Selling surplus sugar on international markets at below EU prices undercuts other exporters and pushes them out of third markets. This fulfils the WTO definition of dumping. See Oxfam, *The Great Sugar Scam*, 2002

13 J. Nyberg, Sugar International Market Profile, FAO, undated

- expand domestic production
- invest in infrastructure and export facilities and/or attract foreign investment
- maintain or increase their competitiveness with other EU suppliers such as Brazil and Cuba (for cane sugar) and the Balkans (beet sugar).

It was assumed that following the reforms EU prices would remain above world market prices. This would ensure that the EU remained the market of choice for ACP producers, although they would lose revenue through the reduced reference price. But so far, revenue losses have been largely mitigated by unexpectedly high world market sugar prices, resulting from supply shortages.

Significant sourcing difficulties, due to weather-induced fluctuations in production, prompted EU processors to call for the abolition of EU production quotas and reduced import tariffs by 2015, to ensure future supplies. The EU is reviewing the abolition of production quotas, but these proposals are strongly opposed by ACP producers, who argue that increased EU production would lead to lower prices and jeopardise their sugar industries. Instead, they want EU quotas to be maintained until 2020, together with an extension of the 'sugar protocol accompanying measures' funding programme. They are supported by European cane refiners who argue that allowing an increase in beet sugar quotas would largely destroy the cane sugar refining industry in Europe, along with 4,500 direct jobs.

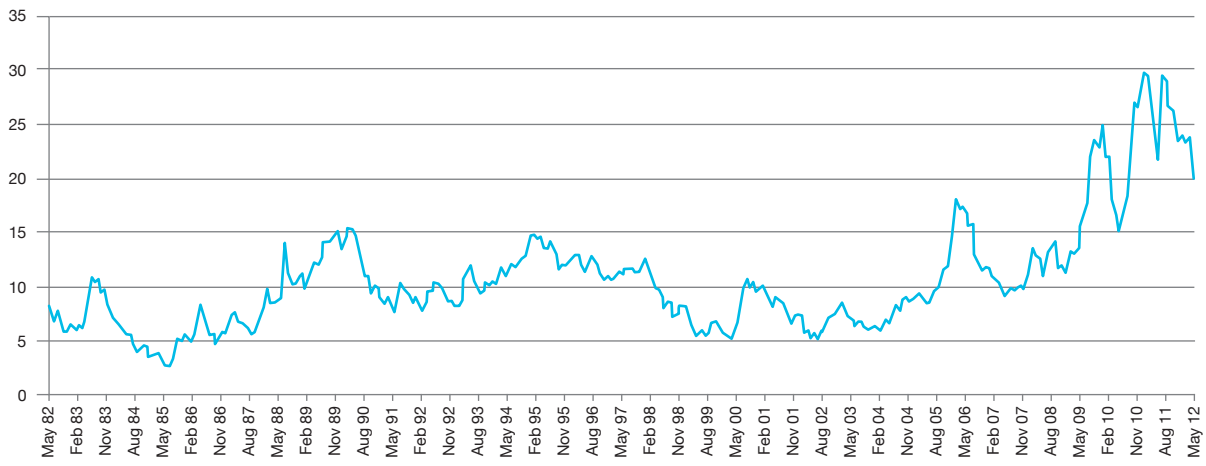
Reform of the EU sugar market has already had a fundamental impact on the global market. The EU has gone from being the world's second largest exporter of sugar to one of its biggest importers, and reduced EU production has contributed to record high world prices. Future impacts are difficult to predict but the likelihood is that large-scale sugar producers from Brazil and other countries will have increased access to the EU market at the expense of poor sugar farmers in African and the Caribbean. But in the medium -term, EU prices are expected to remain high at least into 2014 because of volatility of supply and low global stocks, and the price of sugar imports is expected to remain higher than EU prices. This is likely to result in a significant reduction in imports to the EU as companies will have little incentive to buy imported sugar.

2.4 Volatile sugar prices

World sugar prices are highly volatile, and the price of raw sugar, in particular, frequently falls below production costs. The price indicator for raw sugar is the 'Sugar No 11' contract (cents per lb) traded on the New York ICE futures market. The indicator for refined sugar is the 'White Sugar No 5' contract (dollars per tonne) traded on the London Liffe futures market.

This volatility is demonstrated in Figure 5. Between 2004 and 2006, New York prices more than trebled, to 18 cents, and then fell by half within a year. More recently, prices soared to a 30-year high of 36 cents during February 2011 before plummeting to around 20 cents in 2012 – a fall of 45 per cent.

Figure 5: World raw sugar prices 1982-2012 (monthly averages, US cents/lb)



Source: Sugar No.11 Contract, NY ICE

Price volatility is largely the result of changes in production – especially by large players such as Brazil and India – but is also due to the nature of the industry. As well as being major sugar producers, Brazil and India are also major sugar consumers, and their export volumes are secondary to the needs of domestic processors. Growing trends in the production of sugar-based biofuel reduce exports, too.

Volatile sugar prices inhibit entrepreneurial activity and make it hard for farmers to manage household expenses and budget for farm inputs, such as fertilisers and pesticides, or to invest in agricultural improvements. When prices fall, farmers are exposed to serious risks, including loss of land and assets.

Futures markets and speculators

Like other commodities, sugar can be traded in two ways: either physically bought and sold on the spot market for immediate delivery, or traded on international futures markets in New York and London. The trading of futures contracts – a commitment to buy or sell a standardised quantity of sugar at a specified place and time in the future – is a tool used by commercial traders and producers to 'hedge' or protect against the risk of loss through future price fluctuations and exchange rate movements.

Futures markets are also used by financial institutions (such as hedge funds, investment banks and pension funds) and private individuals to gamble on the price of commodities such as sugar. This speculation by non-commercial traders is coming under increasing criticism for making commodity prices more volatile.

2.5 The sugar supply chain: who wields the power?

The sugar supply chain involves thousands of companies around the world, including producers, mills, refiners, wholesalers, traders and retailers. The role of small-scale farmers is restricted to the start of the chain, when they deliver cane to the local mill – preferably within 24 to 48 hours of harvesting, before the sucrose content deteriorates and its value is reduced. Most value is added to the commodity through processing and marketing activities, which are controlled by a few large corporations that have the capacity to invest in the capital-intensive technologies needed to process sugar. These activities are beyond the reach of small-scale producers, who are totally financially reliant on selling their sugar cane to the nearest sugar mill for processing into a consumable commodity.

After processing, the raw sugar is transported to the port and shipped to refineries in consumer countries, where it is further processed into white refined sugar, brown sugar or granulated sugar. The majority of refined sugar is then sold on to large multinational processors, such as Nestlé and Unilever, which manufacture consumer products for international markets.

In many European national markets, competition for supplies is intensifying as companies restructure and consolidate their operations to position themselves to win or increase market share, or to secure supplies of imported sugar in the rapidly changing environment. Their strategies include disinvestment, mergers and acquisitions, investing in part-ownership of sugar estates and sugar mills in developing countries, expanding beet-processing activities to include cane refining, expanding marketing operations across Europe, and extending corporate relationships with distributors, sugar trading companies and refiners.

As a result, the market is becoming dominated by a handful of EU companies with an increasingly global reach. Some now have subsidiaries involved in growing and milling sugar cane in developing countries, trading and further refining raw sugar and, in some cases, bagging and marketing raw cane sugar.

The following six sugar traders account for around two-thirds of world trade:

- Czarnikow, based in London and owned 42.5 per cent by British Sugar, accounts for around 18 per cent of world trade (8 million tonnes) and operates in most of the world's major sugar markets.[14] Czarnikow trades around 30 per cent of Brazil's sugar/ethanol.[15]
- Sucden, a commodities broker based in France, accounts for around 10 per cent of world trade (4-5 million tonnes a year), buying sugar mainly from Brazil, Cuba and Thailand, and also operates sugar refineries.[16]

14 'Sugar', www.britishsugargroup.com; 'Czarnikow group', www.britishsugar.com
15 Grain, 'The sugar-cane-ethanol nexus', July 2007, www.grain.org
16 'About us', www.sucdenfinancial.co.uk; 'Sugar trading and distribution', www.sucden.com

- Louis Dreyfus, based in France, is one of the world's largest commodities traders. It handles 2.5 million tonnes of sugar each year, and is the leading sugar exporter in Brazil (where it owns three sugar mills) and Mexico.[17]
- Cargill, a giant US agribusiness, trades several million tonnes of sugar annually and also has sugar export terminals, sugar cane mills and distilleries, along with other distribution and marketing operations.[18]
- ED&F Man, a London-based commodities trader, has sugar operations in 40 countries and refines and processes sugar in a number of countries, along with storage and warehousing.[19]
- US multinational Bunge accounts for around 10 per cent of world trade (4.5 million tonnes, of which 3.5 million tonnes are from Brazil, where it now also operates eight mills). In 2009 it acquired Tate & Lyle's international sugar trading and sales division.[20]

In the EU, the following five companies account for around 80 per cent of EU sugar-beet processing capacity and 72 per cent of the EU sugar market:[21]

- Associated British Foods, which owns British Sugar, Silver Spoon and Billington's brands
- Tate & Lyle Sugars – a cane sugar refiner who have comitted to convert their entire retail sugar range to Fairtrade
- Tereos, which has 40 per cent of the French market
- Sudzucker, a German company and Europe's largest sugar processor
- Nordzucker, another German company and Europe's second-largest sugar producer.

Few of these companies report how profitable their sugar businesses are. However, Illovo Sugar Ltd is an exception. Based in South Africa, Illovo Sugar (51 per cent owned by Associated British Sugar) dominates Africa's cane-sugar production, producing 1.64 million tonnes in 2010-11, including all Malawi's sugar, 90 per cent of Zambia's production and 25-40 per cent of production in South Africa, Swaziland, Tanzania and Mozambique.[22] Illovo reported revenues of R8,108bn (£633m) in 2011 and an operating profit of R1.064bn (£80m).[23]

These figures indicate that the trade in sugar – as with other commodities – is increasingly dominated by a few major multinational companies.


Harvesting by hand, Tate and Lyle, Belize

17 'Sugar', www.ldcommodities.com; 'Sugar offices and facilities', www.ldcommodities.com
18 'Cargill sugar', www.cargill.com
19 'Sugar', www.edfman.com
20 D. Vallada, 'After acquiring Tate & Lyle, Bunge Limited expects to trade 10% of world's sugar', *Foodbiz Daily,* 25 September 2009; www.bunge.com/Sugar-and-Bioenergy
21 Agritrade, *Corporate restructuring in the EU sugar sector: Implications for the ACP,* May 2010 http://agritrade.cta.int/
22 'Illovo Group statistics', www.illovosugar.com; 'Sugar', www.abf.co.uk
23 'Fast facts', www.illovosugar.com

2.6 How much do sugar cane farmers earn?

Research carried out by Fairtrade in sugar-producing communities in Malawi [24] and Belize [25] highlights the development and poverty challenges that these communities face. A study by the Belize government [26] estimates that in Corozal district, which grows a major portion of the country's sugar, 46 per cent of the population lives in poverty, and 15.7 per cent of these are destitute. In the sugar-growing district of Chikwawa, located in Malawi's Shire Valley region, maize is the main staple. But 85 per cent of households run out of food during the 'hungry period' of January to April, when maize is scarce and unaffordable for most farmers.

Sugar growers' incomes vary widely. In Tanzania, average incomes can be less than $1 a day, [27] while in South Africa the country's 48,000 small-scale growers earn an average of around $1,770 a year [28] – about $5 a day.

Small-scale growers receive a small percentage both of the retail price of sugar and the world price. In Uganda, where the sugar sector employs around 70,000 people, both directly and indirectly, figures from late 2009 show that growers were receiving:

- around $209 per tonne, which amounts to 25 per cent of the retail price in Uganda of $840 per tonne, as opposed to millers, who receive $388, or 46 per cent [29]
- the equivalent of 9 cents per lb – around half the prevailing world market price [30]
- around 14 per cent of the retail price of sugar in the UK and 11 per cent of that in the US.[31]

Clearly, sugar cane farmers face serious developmental challenges and, like many other smallholder farmers, are poorly served by the global trading system.

Cooperativa Manduvira, Paraguay.

24 Natural Resources Institute, *Longitudinal Impact Assessment of Sugar Producers in Malawi*, January 2010, www.fairtrade.org.uk/resources/reports_and_briefing_papers.aspx
25 Scheduled for publication in 2013
26 Belize Ministry of Economic Development, Commerce and Industry, and Consumer Protection *2009 Country Poverty Assessment*, August 2010
27 One study estimates that average per capita incomes of sugar growers is $236 compared to $600 for the country as a whole. Sucre Ethique, 'Corporate social responsibility within the African sugar industry', undated, www.sucre-ethique.org
28 World Business Council for Sustainable Development, 'Sugar industry: A sustainable livelihoods approach to industry challenges', 2004, p. 1. www.sustainable–finance.org. Figures are from South African Sugar Association, based on 48,000 growers sharing income of $65m-$105m
29 J Kato and M Ndijo, 'Uganda: Growers bitter over varying cane prices', 18 August 2009, www.allafrica.com; M Rwakakamba, 'Uganda: Local sugarcane growers getting raw deal', 3 September 2009, www.allafrica.com
30 $209 per tonne is the equivalent of $9 cents per lb, compared to the world market price in July 2009 of $18.35c per lb; ISA monthly price, Faostat
31 Retail prices in 2008-09 were around 62 cents per lb in the UK, 82 cents per lb in France, 83 cents per lb in the US and 98 cents per lb in Japan; 'International sugar statistics', www.illovo.com

3. WHY FAIRTRADE IS NEEDED...

As we have seen, the global sugar industry is a vast and complex system. Millions of sugar cane farmers and workers in Asia, Africa, Latin America and the Caribbean provide the raw material that the trade depends on, but have little influence over the way the trade operates. They generally fail to secure a fair return for their work and struggle to provide a decent livelihood for themselves and their families. Here we look at some of the many reasons why the current global trading system is keeping cane producers poor.

3.1 International trade policy and subsidies to the sugar sector

Traditionally, the international trade laws that govern sugar imports have made it difficult for smallholder farmers to access the more lucrative markets of Europe and North America. These force them into competition with more powerful, wealthy countries that have greater financial resources to dedicate to sugar production and greater political power to subsidise and promote their sugar industries.

Under the EU sugar regime, producers from the African, Caribbean and Pacific group of countries (ACP) and Least Developed Countries (LDC) were able to access the EU market via quotas with guaranteed high payments, equal to those paid to EU beet producers. However, on 1 October 2012, EU import quotas were removed and guaranteed EU prices withdrawn. These producers now face increased competition for sales from non-ACP countries, including larger-scale producers such as Brazil, and must negotiate contracts based on prevailing world market prices, which historically have been much lower. Countries that lose access to the higher-priced preferential EU market will have to sell their produce on the world market.

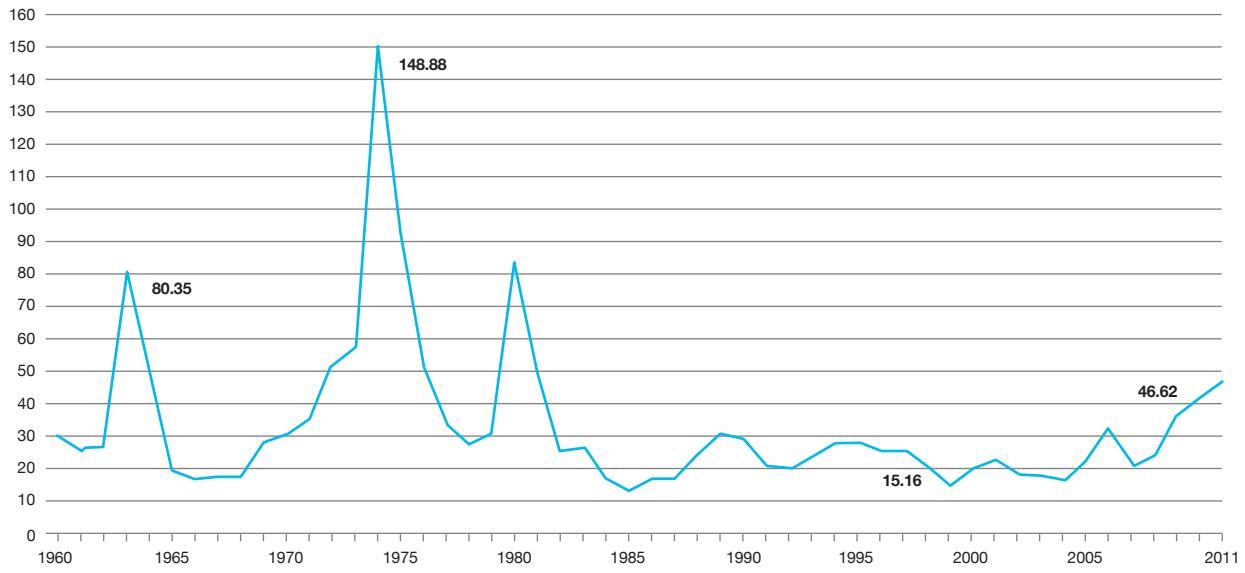
3.2 Long-term price decline in real terms and continued volatility

Sugar prices show a long-term downward trend in real terms, when adjusted for inflation. Prices plummeted 80 per cent between 1980 and 2000 and have shown sustained improvement only since 2007 (Figure 6).

World sugar prices are currently high[32] because of shortages of raw sugar, but they are historically volatile and generally low, reflecting surplus supply. They often fail to cover costs of production leaving farmers in debt and unable to invest in their farms. This affects the entire community, as sugar cane farmers often rely heavily on their families for help, limiting people's opportunities for education and perpetuating the cycle of poverty.

This also means that cane producers do not receive the support they need in meeting the challenges of new market conditions, including access to funding to invest in improving productivity (such as fertiliser and transport), agricultural training, and new and improved technology.

Figure 6: Sugar prices in real terms 1960-2011 (prices in constant 2005 US dollars)



Source: International Sugar Organization/World Bank (GEC) Commodity Prices database

32 'The New York Sugar No. 11 contact was trading at around 20 cents per lb in the fourth quarter of 2012, www.theice.com

3.3 Sugar cane production and challenges for growers

Several production models operate in sugar cane producing countries. The predominant model is the vertically integrated estate, in which a mill owns and operates the sugar cane estates that supply it with cane (for example, in Senegal and Burkina Faso). Because mills aim to optimise their efficiency by operating at near capacity there is a growing trend for local farmers (known as out-growers) to also grow cane to supplement estate production (for example, in Brazil and Mauritius). Trade relationships are based on market forces and prices are set by the mill, so these independent farmers have little security. For example, when supply is high, they have little power in price negotiations.

Another production model is the revenue-sharing model. This tends to be used in countries with a high dependency on small farmers – particularly in established cane-producing countries within the ACP and LDC regions. Here, the terms are based on the price received for processed cane sugar, and are usually negotiated between the mill and cane farmers' association, often at national level with government input. The share can vary from 50 to 75 per cent to the farmers, but is usually around 65:35. This model is intended to reflect the interdependence of the farmers and the processor. Growers are responsible for the delivery of good-quality, clean cane, with high sucrose content, while the mill is responsible for optimum recovery of sugar from the cane and for maintaining the equipment to avoid breakdowns that cause back-up of cane deliveries and deterioration in quality.

As well as manufacturing, the mill is usually responsible for marketing the sugar. Sometimes this is done on behalf of the mills by an independent body (such as LAICA in Costa Rica), while in a few countries (such as Cuba and Mexico) state-run marketing boards still exist, albeit with very different systems. In some countries (including India, Bangladesh and Nepal), cane prices are fixed by the government, while in others the price is negotiated between growers and processors at the start of the season.

Sugar cane farmers

Most small-scale sugar growers work plots of a just few hectares, and many live on less than $2 a day. They receive low or volatile prices for their cane while, in effect, competing against wealthier countries that subsidise sugar production. Many are farming in increasing precarious climatic conditions, and have limited access to credit to enable them to invest in production.

Rising costs and lack of access to credit

Like agricultural communities across developing countries, sugar cane farmers face rising costs for food, energy, transport and necessities such as school fees and medical bills. Following the 2008 global financial crisis, record high prices for wheat, maize, rice and other staple foods triggered mass protests and riots in some developing countries. In February 2011, these record prices were topped when agricultural production was disrupted by severe weather. According to the Food and Agricultural Organization, 'the cost of basic food staples remains high in many developing countries, making life difficult for the world's poorest people who already spend between 60 and 80 per cent of their meagre income on food.' [33]

The costs of key farm inputs, such as labour, fertiliser and pesticides, are also rising (with fertiliser costs 43 per cent higher in 2011 than 2010) [34] and many farmers lack the capital or access to affordable credit to invest in improving productivity or in combating pests and disease.

In the US – the largest exporter of corn, soya beans and wheat – severe drought pushed corn prices to a record high of $8.16 a bushel in July 2012, while soya beans hit a high of $17.17.[35] These rises, along with growing concerns about the Russian wheat harvest, are reviving memories of the 2008 global food crisis.

33 'FAO Initiative on Soaring Food Prices', www.fao.org/isfp/isfp-home/en/
34 World Bank, 'Global Economic Prospects January 2012', *Global Commodity Market Outlook*, 2012
35 'Record cereal prices stoke fears of global food crisis', *The Guardian*, 19 July 2012

Sugar cane workers
Sugar cane cutters undertake hazardous, back-breaking work for low wages. Often, safety equipment is not provided, and machete-related injuries are common, ranging from minor cuts to severed limbs. Repetitive use of heavy machetes can cause musculoskeletal injuries, while unprotected eyes are vulnerable to cuts and injuries from cane stalks. There is also a risk of health defects and respiratory problems resulting from sugar cane burning (described in the following section).

Amnesty International has reported that in several countries, sugar plantation workers endure low wages, poor working conditions and overcrowded and insanitary housing.[36] In north-east Brazil, sugar cane cutters have the lowest life expectancy, and their children the highest mortality rate, of any group.[37] Sugar cane workers are often seasonal migrants, paid per tonne of cane cut. Many, such as Haitians working in the Dominican Republic, are illegal migrants with few rights and live in fear of deportation.

Pre-harvest burning
Sugar cane fields are burned before harvesting to remove dead leaf material and weeds. This makes processing easier and reduces the need for manual labour, as well as destroying scorpions, snakes and other dangerous insects and pests that live in the dense undergrowth and can pose a danger to workers. However, burning destroys about 25 per cent of the stalk, including dry and green leaves that could otherwise be left to rot down and enrich the soil. Alternatively, they could be removed and burned to create steam for electricity generation or used as a source of fuel themselves.

Cane burning releases large amounts of organic and particulate matter into the air. This particle pollution has been associated with a range of respiratory conditions, including irritation of the airways (causing coughing or difficulty breathing), decreased lung function, aggravated asthma, chronic bronchitis, and premature death in people with heart or lung disease. It has been linked to an increase in hospital visits for respiratory issues, specifically among children and older people.

During the burning season, from May to November, smoke from large-scale sugar cane fields in Brazil covers huge areas of the Amazon. This reduces the natural cloud blanket that envelops the area for most of the year and affects the climate by allowing more solar energy to enter the Earth's atmosphere.[38]

Child labour and forced labour
A US Department of Labor report [39] states that sugar is produced using child labour in Belize, Bolivia, Burma, Colombia, Dominican Republic, El Salvador, Guatemala, Kenya, Mexico, Panama, Philippines, Thailand and Uganda, and using forced labour in Bolivia, Burma, Brazil, Dominican Republic and Pakistan.

The report says children in sugar cane fields do strenuous work, often over long hours. They are exposed to excessive sun and heat, may suffer heat exhaustion and skin damage, and are at increased risk of skin cancer. Accidents from heavy tools and sharp machetes, used to weed and harvest cane, can cause serious wounds. Children are also at risk of respiratory disorders from inhaling smoke from cane burning to clear fields, and contact with pesticides can cause damage to children's skin and eyes and be detrimental to respiratory function and reproductive health over time.

For many parents, there is little incentive to discourage child labour because their incomes are low and schooling is expensive.

Food security
The intensification of sugar cane production means that land originally used to grow food is being switched to sugar cane production, with a negative impact on food security in rural areas.[40]

Environment
Sugar cane production can contribute to a host of environmental problems, including deforestation, habitat destruction, water scarcity and water pollution. The overuse of chemical fertilisers and pesticides and irrigation deteriorates soil fertility, pollutes soil and water, depletes water, and impacts on the livelihoods of farmers and workers.

36 Amnesty International, 'Brazil', *Annual report 2008*
37 WWF, *Action for sustainable sugar*, July 2005, p. 3
38 'Sugarcane', University of Florida research project, 2009, https://sites.google.com/site/sugarcanepm/home
39 U.S. Department of Labor's *List of Goods Produced by Child Labor or Forced Labor*, 2011
40 FLO, Sugar project: 'Growing Fairtrade cane sugar market and increasing access and impact for producers,' October 2011, unpublished

Climate change, adaptation and diversification
Farmers in many areas where sugar cane is grown now have to contend with the unpredictable affects of climate change. Sugar cane farmers in Fiji are familiar with significant variations in extreme weather events, such as tropical cyclones, floods and drought linked to the El Niño phenomenon. But production now appears to be further disrupted by changes in climate patterns related to global warming. For example, ideal weather conditions in 1994 resulted in record sugar production of 516,500 tonnes, while drought and tropical cyclones saw production fall to between 275,000 tonnes and 293,000 tonnes in 1997, 1998 and 2003,[41] seriously affecting farmers' incomes. More widely, the difficulty of accurately predicting crop size affects the planning of shipping arrangements, marketing and storage strategies, as well as mill operations.

A four-year study conducted by the World Bank in the Indian states of Maharashtra, Andhra Pradesh and Orissa has predicted drops in agricultural yields caused by climate change. It stated that the sugar cane yields in Maharashtra could be reduced by up to 30 per cent in the future, with long-term socio-economic implications for many farmers.[42]

These issues illustrate the magnitude of the challenges in the sector and how precarious life is for small farmers dependent on sugar.

4. HOW FAIRTRADE WORKS FOR SUGAR CANE GROWERS

The Fairtrade Foundation was founded in 1992 to license Fairtrade products in the UK and promote Fairtrade to consumers, business and the media. The first Fairtrade certified products – Cafédirect coffee, Clipper tea and Green & Black's Maya Gold chocolate – were launched in 1994.

In 1997, the Foundation and partner labelling initiatives in Europe and North America set up Fairtrade International (FLO), [43] to co-ordinate Fairtrade labelling at the international level. FLO sets international Fairtrade standards, organises support for producers around the world, develops global Fairtrade strategy, and promotes trade justice internationally. FLO members now include 19 Fairtrade labelling initiatives, covering 24 countries, as well as two Fairtrade marketing organisations, one associate member, and three producer networks representing producers in Africa, Asia and Latin America and the Caribbean. The producer networks provide 50 per cent of the representatives at the FLO General Assembly. This makes them half-owners of the global Fairtrade system and ensures that producers have an equal voice in Fairtrade's highest decision-making body.

Fairtrade sugar was initially launched in several European markets in the late 1990s, followed by the UK in 2000, in order to improve the position of small-scale sugar cane growers and their dependent communities, which were being undervalued by the global sugar market.

4.1 How Fairtrade works in sugar

Fairtrade certification in sugar cane focuses on small-scale producers. The industry relies on these producers, but their livelihoods are disadvantaged by the global trade in sugar. As we have seen, many sugar cane farmers are facing a long-term decline in productivity, cane quality and environmental sustainability as a result of the poor economic deal they are faced with and the impacts of climate change. Meanwhile, as explained in Section 2, changes in the way sugar is traded are increasing competition among producers for a share of lucrative export markets.

Through Fairtrade certification, and by working in partnership with sugar cane processors, sugar cane farmers can get improved access to international markets and develop the necessary business skills and technical capacity to be more competitive in the global market.

41 J. Gawander, 'Impact of climate change on sugar-cane production in Fiji', WMO Bulletin 56 (1), January 2007
42 'Climate change may hit sugarcane crop: WB report', *The Times of India,* May 27 2009
43 Fairtrade International, www.fairtrade.net

4.2 Fairtrade Standards

Fairtrade Standards play a key role in the Fairtrade model. These are set and reviewed regularly through a multi-stakeholder consultation process that includes producers, Fairtrade Producer Networks, traders and retailers. Standards for many products include a minimum price that is calculated to cover the costs of sustainable production.

A stakeholder review of the sugar standards in 2009 highlighted the complexities of price setting in the sugar sector – a sector that is characterised by structural differences in sugar supply chains, government-set prices and distortions caused by international trade regimes. The conclusion was that it would be more effective for sugar prices to be negotiated between producers and traders rather than through the minimum price mechanism. A further review, scheduled for 2013, will analyse whether the current system is delivering the impact that producers need and developing market demand.

The main economic provision of Fairtrade Sugar Standards is the Fairtrade Premium of $60 per tonne of sugar ($80 per tonne for certified organic sugar) in addition to the negotiated price. In 2011, certified producer organisations were paid an estimated €7.4m in Fairtrade Premiums to invest in projects agreed by their members. They include business improvements (boosting productivity and quality or developing sustainable farming methods), initiatives to improve life for their families (paying school fees, building new houses, installing electricity) and projects that benefit the wider community (healthcare, education, clean water).

How Fairtrade Standards work

The main provisions and objectives of Fairtrade Standards are as follows:

- Fairtrade certified sugar cane is open to small producer organisations that are owned and governed by their members.
- A democratic decision-making process must be in place, with all members having an equal right to vote on key issues.
- Producer organisations are paid a Fairtrade Premium of $60 per tonne ($80 per tonne for certified organic) to invest in community, business and environmental projects.
- Producer organisations can request pre-finance of up to 60 per cent of the negotiated contract value. This is important for small-scale farmers' organisations, as it ensures that they have the cash flow to provide agreed services to members.
- Environmental standards promote best agricultural practice focusing on minimised and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources, and no use of genetically modified organisms.
- Forced labour and child labour are prohibited.
- Trade standards aim to encourage fairer negotiations, set out how best to agree contract prices, and reduce speculation.

Independent inspection by a separate company called FLO-CERT (www.flo-cert.net) provides the scrutiny that motivates producer organisations (and traders) to actively and effectively ensure compliance. It also helps them to progressively strengthen their organisations by developing and adapting internal systems and processes.

Traceability of Fairtrade sugar

Fairtrade Standards require that most Fairtrade products (such as bananas, coffee, nuts and rice) are physically traceable. This means they must be labelled and kept separate at every stage of their journey, from the farmers' groups to the shop shelves. However, for most sugar, it is impossible to guarantee physical traceability as often producers have no control over processing. For example, when cane farmers deliver their cane to the mill for processing, it may be mixed with cane delivered from other sources for reasons of economies of scale, in which case it cannot be kept separate during the subsequent warehousing, shipping, distribution and retailing stages. The cost of keeping Fairtrade sugar separate would price it out of the market and exclude thousands of farmers from the benefits of Fairtrade.

So, after extensive consultation with producers and traders, the FLO Standards Committee decided to exempt sugar from physical traceability and to instead operate a mass balance programme whereby, even though it may be being mixed with other sugar during the manufacturing process, the actual volume of sugar sales on Fairtrade terms is tracked and audited through the supply chain. This ensures that the amount of sugar in the final product is matched by the amount sold by the farmers, so that farmers can receive the full premium and other benefits of Fairtrade (the exemption also applies to cocoa, tea and juices).

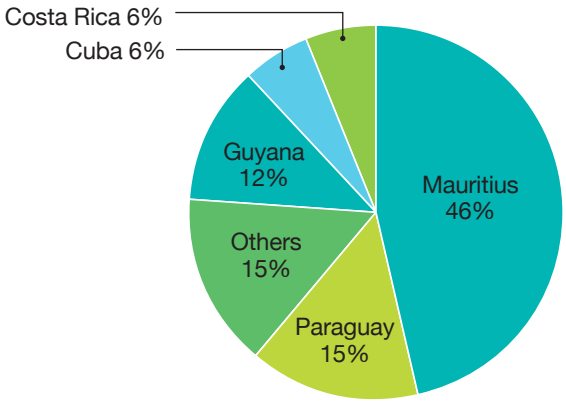
4.3 The growth of Fairtrade sugar cane producer organisations

Strong growth in sales of Fairtrade sugar since 2007 has been matched by increases in the number of certified producer organisations supplying sugar and in the value of Fairtrade Premiums received by these groups.

Fairtrade producer organisations: production, sales and premiums

- Eighty per cent of Fairtrade sugar is produced by ACPs or LDCs, where sugar is often the most important source of income.
- There are now 69 Fairtrade certified sugar cane producer organisations, in 15 countries: Belize, Brazil, Costa Rica, Cuba, Ecuador, Fiji, Ghana, Guyana, India, Malawi, Mauritius, Paraguay, Peru, Philippines, and Zambia.
- The number of individual farmer members more than doubled between 2010 and 2011, from 17,600 to 37,000.
- Producer organisations sold 185,000 tonnes of Fairtrade cane sugar in 2011. This generated an estimated additional income of €7.4m in Fairtrade Premiums for their members.

Figure 7: Fairtrade sugar cane producer organisations by country, 2012 (total 69)



Source: FLO

Figure 8: Fairtrade sugar cane producer organisations and members by region

Region	Producer Organisations	Members
Africa	35	10,100
Latin America and Caribbean	31	21,100
Asia and Oceania	3	6,000
TOTAL	**69**	**37,200**

Source: Fairtrade International

Figure 9: Fairtrade sugar exports by top 5 countries 2010-11

Country	Tonnes
Belize	69,900
Fiji	40,700
Zambia	30,000
Paraguay	20,700
Malawi	8,500
Others	15,000
TOTAL	**184,800**

Source: Fairtrade International

Cutting cane, Kasinthula Cane Growers association, Malawi

4.4 Empowering producers

The democratic and independent organisation of small producers is a key element of Fairtrade – first, to ensure fair and transparent distribution of the Fairtrade Premium, and more generally, to facilitate long-term processes of sustainable development and empowerment. Fairtrade Standards follow the International Labor Organization's Recommendation R193 [44] on promoting co-operatives as a proven model that contributes to the socio-economic development of farming communities. So, Fairtrade farmer organisations – co-operatives, associations or others – have to incorporate co-operative principles, including voluntary membership, democratic control, economic participation of members, autonomy and independence, and concern for the community.

Joining together in co-operatives or associations enables farmers to pool resources and benefit from economies of scale, and strengthens their position in the market. Also, by working more closely with mills, Fairtrade sugar cane co-operatives can learn about quality requirements and consumer needs. Farmers can invest in technical assistance to improve yields, as well as training and better business methods to improve the efficiency of their co-operatives. All this investment enables the co-operatives to negotiate higher prices for their members, allowing them to lift themselves out of poverty through trade.

FLO Producer Services and Relations unit
To carry out its work on empowering producers, Fairtrade International set up the Producer Services and Relations (PSR) unit to strengthen the capacities of small producer and worker organisations and support them to achieve sustainable development through fair trade. Its work is supported and facilitated by PSR liaison officers – a team of 52 regionally based consultants who provide support to producers in more than 50 countries. PSR functions include:

- providing training in local languages
- offering guidance on Fairtrade certification requirements
- facilitating relationships with buyers and access to new markets
- supporting producer involvement in consultations on Fairtrade Standards and Pricing
- supporting networking and partnership development.

PSR has supported sugar cane growers in many countries, as the following examples show:

Guyana In Guyana in 2011, PSR organised extended training for seven sugar cane co-operatives in meeting Fairtrade standards. This also presented an opportunity for producers to interact and share experiences, and they held detailed discussions on how to use premiums, supported with advice from the liaison officer. One year on, the groups had used the premium to replant long-abandoned fields and replace old and poor-yielding cane with new plants. Since the initiative, farmers have shown renewed interest in their farms, their environment and in the better functioning of their co-operatives. Meanwhile, as awareness of Fairtrade has grown, other cane-farming groups have become motivated to join Fairtrade.

Mauritius In July 2012, liaison officers in Mauritius provided pre-audit support over 15 days to 32 sugar co-operatives. They found that most of the co-operatives had grown much stronger since their first audits, and that the first Fairtrade Premium investments were having an impact on farmers' communities and the profitability of their businesses. Producers had used their premiums to invest in subsidised fertilisers and a tractor to reduce the cost of delivering cane to the collection point.

Swaziland and Mozambique Liaison officers provided post-audit support to three producer organisations in Swaziland, and one in Mozambique, to enable them achieve Fairtrade certification in autumn 2012. This brought the number of sugar producer organisations in the region to 40, in response to increased demand for Fairtrade sugar.

Jamaica In Jamaica, PSR supported six sugar cane producer organisations that were going through the last steps towards Fairtrade certification. It hired a consultant to work directly with the farmers to help them meet the standards by addressing nonconformities identified during their initial inspections. Despite the disruption caused by Hurricane Sandy, the first group was successfully certified in early November 2012.

44 http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312531:NO

Africa Fairtrade Africa and PSR jointly organised a meeting for African Fairtrade sugar producers ahead of the Africa Fairtrade Conference in Addis in November 2012 – a joint effort that will strengthen information sharing and networking amongst sugar producers.

4.5 How Fairtrade benefits sugar farmers and their families

Sugar mills are major industrial facilities that require large centrifuges and other heavy machinery to process sugar cane into sugar. In most countries, small-scale producers tend to lack the capacity to undertake such an expensive process on their own. But, thanks to their participation in Fairtrade, some farmer co-operatives have taken a step up the supply chain and are beginning to mill, refine and directly export their product to international buyers.

The Manduvirá Co-operative in Paraguay is one example of what producers can achieve. It has used the Fairtrade Premium to part-fund construction of a sugar mill – the first producer-owned mill in the country – so ensuring higher incomes for its members. Also in Paraguay, five producer organisations (ASAGOC, Independencia, Orgánica de Iturbe, Cañera del Sur and Yoayu) have developed a commercial agreement with Azucarera de Iturbe, one of the most important mills in the country, to produce Fairtrade organic sugar. This partnership – the first of its kind in Fairtrade – means that the producers can trade their own organic Fairtrade sugar and take more control of the supply chain.

Juan Sanchez loading the cane cart, Asoprodulce Co-operative, Costa Rica

FAIRTRADE AND SUGAR IN MALAWI

'I understand that Fairtrade is all about business. It means that we get an extra payment by the premium and access to international markets.'
Alfred Butao, sugar cane farmer, Kasinthula Cane Growers' Association

Kasinthula Cane Growers' Association (KCG) is a smallholder sugar cane project located in an inhospitable region of southern Malawi. Long droughts occasionally result in famine, and the twice-yearly rains often bring floods. Literacy levels are low and poverty is widespread. Most people live in basic mud huts with thatched roofs and few can afford to keep livestock. Families eke out a living growing maize, cassava or rice, while others earn cash from sugar cane or cotton, or by labouring on nearby sugar plantations.

KCG was set up in 1996 as part of a joint venture with the Malawi government and a nearby sugar mill, now operated by Illovo Sugar (see Section 2.5). An area of largely unproductive land was converted to sugar cane production to increase the supply of raw cane to the mill while providing an income for 282 subsistence farmers. The initiative now also provides employment for nearly 800 permanent and seasonal field workers.

KCG received almost $560,000 in Fairtrade Premiums in the year to September 2011. The funds have been invested in improving productivity and in healthcare, clean water, education and other projects to alleviate poverty in the community. For example:

- A new primary school allows children to start school when they are five years old. Previously, they had to wait until they were seven or eight, when they were old enough to walk the long distance to the nearest school.
- Six computers and three printers have been donated to local high schools and children's school fees are paid.
- 18 boreholes have been dug and now supply clean water to local villages, and an exciting water project provides tap water to homes in Salumeji village.
- Drugs to treat bilharzia (a chronic parasitic disease) are donated to the Kasinthula Bilharzia Clinic, which has now been extended into a full healthcare clinic, with a house for a resident clinical officer.
- Four bicycle ambulances have been purchased. These bikes are adapted to pull specially designed trailers as a cheap and simple way of transporting patients for treatment.
- KCG has supported a government project to make electricity available for the first time to 82 households, enabling farmers to buy radios and televisions and fridges to keep food fresh in the tropical heat. Electric lighting makes it easier for children to do their homework at night.
- Most members have replaced leaky grass-thatched huts with brick-built houses with corrugated iron roofs.
- Cane fields have been replanted to improve yields and increase farmers' incomes.
- An EU grant of £150,000, matched by KCG, has been secured to expand production by 400 hectares. This will enable a further 200 farming households to join and significantly improve their standard of living by growing sugar cane.

FAIRTRADE AND SUGAR IN PARAGUAY

'When we started, we didn't have anything. Fairtrade helped us connect with the market. People came from Germany and Switzerland, telling us "You can do more!" In Paraguay, people said "You are poor. You are crazy. You will never be able to sell or export your sugar directly or think about having your own sugar mill." Today, we have more than 28 different clients, and we are selling our sugar to all parts of the world.'

Andrés González Aguilera, General Manager, Manduvirá Co-operative

Manduvirá Co-operative is located in the remote district of Arroyos y Esteros, around 70km northeast of the capital of Paraguay, Asuncion. The co-operative was founded in 1975 to help farmers access credit without the bureaucracy of bank loans and work together to improve their community. It has about 1,500 members and 27 employees, with a further 1,000 temporary workers hired during the cane harvest. As well as organic sugar, its members produce organic sesame, cotton, fruit and vegetables.

Manduvirá Co-operative was Fairtrade certified in 1999. It exports almost all of its annual production of 4,000 tonnes of sugar to Fairtrade clients in 18 countries. For Manduvirá, an important element of Fairtrade is the option for advance payment of 60 per cent of sales contracts. This enables the co-operative to finance production and pay farmers without taking out expensive bank loans.

In the year to August 2011, the organisation received $296,000 in Fairtrade Premiums. Half was divided equally among members, to invest in farm improvements or home repairs and improvements such as building an indoor bathroom. The remaining 50 per cent was spent on community projects, such as:

- providing a new health centre, including a medical team, dentist, optician and laboratory services – available to the whole community, and the only one in the region
- donating school uniforms and kits containing pencils, notebooks, rucksacks and other school materials
- educational courses for children in computers, languages, art, music, and dance
- running a savings and credit scheme
- agricultural support and training services
- buying a tractor and plough that members can hire for a third of the market rate.

Manduvirá Co-operative is an excellent example of how Fairtrade can help producers move up the value chain. Before the co-operative was Fairtrade certified, its members harvested their sugar cane then sold it to a local mill for processing. By 2004, they had gained the knowledge and skills to contract a mill to process the cane into sugar and export it directly themselves – a first for a co-operative in Paraguay. But high rental and transport costs to the mill, located 100km away, still made it a costly operation, using resources that could be better deployed in the community.

Now a dream is being realised. In December 2011, the co-operative laid the foundation stone to build its own mill – another first for Manduvirá. Part-funded by the premium, and built on local land purchased with premium funds, this producer-owned mill is due to be up and running by 2013. This will enable the farmers to take greater control of the value chain, add more value to their final product, and ensure that benefits remain in the community where they belong. As well as processing more cane sugar, farmers and their communities will benefit from more job opportunities and stable incomes.

FAIRTRADE AND SUGAR IN BELIZE

'Fairtrade is like a door to a great opportunity within our community. Investment in the range of projects in the technical support programme is helping the cane farmers produce a higher quantity and quality of sugar cane with a positive impact on the incomes of producers. Through the social programme, Fairtrade can help us promote education and build schools, health centres, clinics and much more. For us, Fairtrade has been a new beginning and also encourages a strong future in the sugar industry.'
Alfredo Ortega, Chairman of the Management Committee, Belize Sugar Cane Farmers Association

Belize Sugar Cane Farmers Association (BSCFA) is located in the 'sugar belt' area of northern Belize. Established in 1960, it now has a membership of more than 5,000 cane growers. All their cane is sold to the country's only mill, operated by Belize Sugar Industries Ltd.

In Belize, the sugar industry is an important source of foreign exchange earnings and provider of employment – especially for the sugar belt, where poverty levels are below the national average but are still around 30 per cent of the population. However, cane growing is a precarious occupation for most farmers because of adverse climatic conditions and insufficient investment in cane replanting, fertilizers and pest and weed control.

For smaller farmers, income from sugar is insufficient to meet household needs between harvests, so most farmers supplement their income by working in construction or the informal sector, or by selling vegetables and other produce grown on their farms.

In recent years, sugar cane farmers and their communities have been hit by rising costs for agricultural inputs such as fertilizer and fuel, as well as by natural disasters such as hurricanes. Unemployment levels have risen to around 9 per cent in the sugar belt and, at 65 per cent, fewer students are completing secondary education because their families are finding it increasingly difficult to afford school fees, transport and meals.

BSCFA was Fairtrade certified in 2008. As a direct result of certification, the association introduced new organisational and procedural changes that are helping it become a stronger organisation that can meet the challenges of lower EU prices and the need to be competitive in the increasingly liberalised global market. In a significant development, the association established its environment department, which has implemented a range of programmes to address the environmental challenges affecting cane production.

In 2011, BSCFA received $4m in Fairtrade Premiums for sales of Fairtrade cane sugar. The funding has been used in a range of ways – for example:

- buying and distributing fertilizer and herbicides (free of charge) to all cane farmers, to boost incomes following recent poor harvests
- carrying out a comprehensive soil analysis project on all farms to map the nutritional needs of the different soils and target fertiliser use more accurately, resulting in increased productivity and reduced costs
- implementing an integrated pesticide programme, which has successfully controlled infestations of froghoppers – an insect pest that regularly infests cane fields and that is thriving in the changing weather patterns caused by climate change. Applications of biological insecticides have been increased to 55 per cent while chemical pesticides have been reduced from 66 per cent to 45 per cent, protecting the environment and health of the cane growing communities
- introducing an extensive and ongoing cane replanting programme, along with a quality control team and cane quality programme. This has led to a major improvement in the quality and condition of cane delivered to the mill and has consequently improved farmers' incomes.

The premium has also supported education and community welfare programmes – for example, with:

- student grants to enable children to continue their education
- grants for school repairs and improvements
- grants to churches, youth groups, women's groups and a community library
- funeral grants and grants to poor families, older people and disabled people for medical costs
- road repairs and maintenance
- installing a water-tank system.

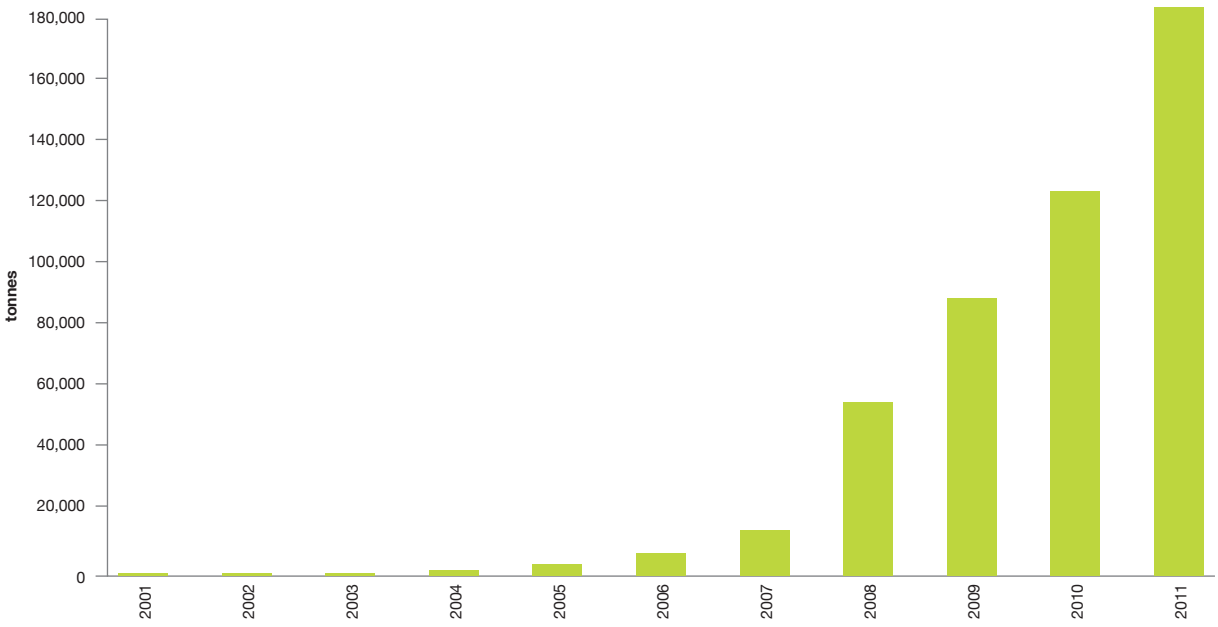
5. FAIRTRADE SUGAR SALES

Despite an increasingly tough economic climate for producers, business and consumers Fairtrade sales continue to grow, both globally and in the UK. This can be attributed to the deep-rooted public sense of fairness and also to the many forward-thinking businesses who recognise this is the right time to invest in sustainable sourcing and ethical trading practices.

Global Fairtrade sugar sales

Global retail sales of Fairtrade cane sugar grew to 185,000 tonnes in 2011. The number of certified producer organisations and origins has been extended to meet market demand for volumes and types of sugar so that 69 certified Fairtrade sugar cane producer organisations, from 15 countries in Asia, Africa and Latin America, now supply the global Fairtrade sugar market.

Figure 10: How global sales of Fairtrade cane sugar have grown (tonnes)



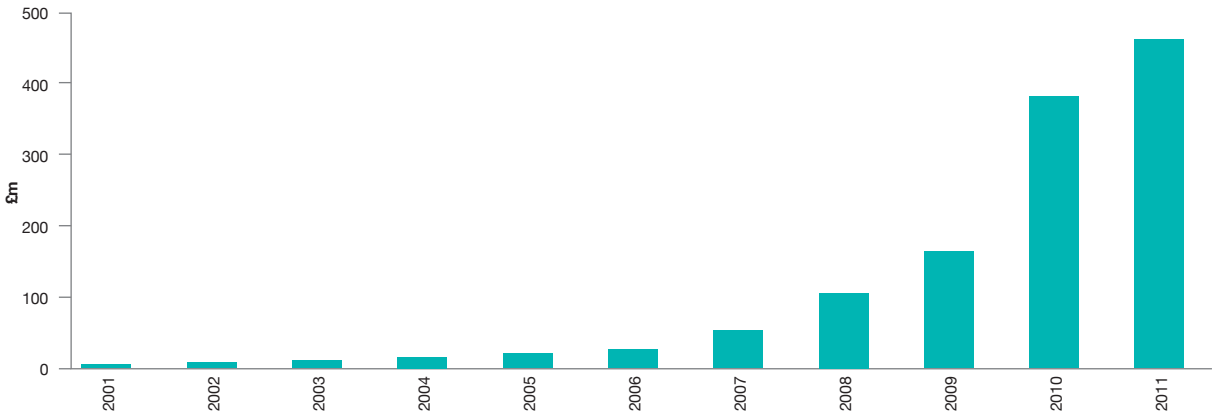
Source: Fairtrade International

5.1 Is Fairtrade sugar changing the mainstream UK market?

Fairtrade sugar was launched in the UK in 2000, pioneered by alternative trade organisations Traidcraft and Equal Exchange. Sales of Fairtrade sugar products have grown fourfold since 2008, driven by Tate & Lyle converting 100 per cent of its retail branded sugar to Fairtrade in 2008-9. As an ingredient in chocolate, Fairtrade sugar sales have been boosted by the commitment of Traidcraft, Divine Chocolate and Ben & Jerry's, along with major conversions to Fairtrade by Cadbury Dairy Milk, four-finger Kit Kat, Maltesers and Green & Black's entire range of chocolate products.

UK consumers spent £464m on Fairtrade sugar products in 2011, with a total volume of almost 101,000 tonnes.[45] With sales worth £118m, Fairtrade now accounts for 36 per cent of the £326m UK retail bagged sugar market.[46]

Figure 11: How UK retail sales of Fairtrade sugar have grown (£m)



Source: Fairtrade Foundation

Around 1,500 Fairtrade certified sugar and sugar products from 180 companies are now available. Of those, 18 per cent comprise packaged sugar, 79 per cent are composite products containing sugar, and 3 per cent are beauty products with a sugar ingredient.

The range of Fairtrade packaged sugar includes white granulated, raw cane, demerara, soft light brown, soft dark brown, muscovado and caster sugar. Many are also available in cubes, sachets and catering sticks.

Billington's range of Fairtrade unrefined sugars is also widely available, while branded Fairtrade packaged sugar is available in most UK supermarkets, along with own-label ranges in The Co-operative, Marks & Spencer, Sainsbury's, Tesco and Waitrose. Since 2008, all sugar sold in The Co-operative Food stores – branded and own-label – has been Fairtrade, and in 2012 Morrisons switched the majority of its sugar range to Tate & Lyle Fairtrade granulated and baking sugars.

45 These figures represent the sugar part of all Fairtrade products containing sugar
46 Nielsen, *Total GB (Food and Drink Retailers)*, fifty-two weeks to week ending 13 December 2012

Outside of retail, Fairtrade sugar can be found almost everywhere – in sachets on Virgin Atlantic and BA planes, on ScotRail and First Great Western trains, and in cafés including Greggs, Pret and Eat. It is available in cubes and bags from nearly all wholesalers, including Brakes, 3663 and Booker, as well as catering companies such as Sodexo and Compass where Fairtrade sugar is standard. And all sugar at the London 2012 games was Fairtrade.

Fairtrade sugar is also used as an ingredient in more than 1,100 Fairtrade products. The huge range includes cakes, biscuits, chocolates, sweets, hot chocolate, ice cream, jams, marmalade, baked beans, beer, moisturisers and body scrubs.

5.2 Responding to consumer concerns

In recent years, effective campaign strategies have exposed problems in the commodity supply chains in developing countries, highlighting issues ranging from workers' rights, child labour and climate change to the impact of production on local communities and the environment. As a result, consumers in Europe and the US are increasingly aware of the impact of agricultural production on producers and the environment, and have a growing expectation of companies to demonstrate that their products have been ethically and responsibly produced.

An internationally accredited (ISO 65)[47] independent inspection body upholds Fairtrade Standards and underpins the integrity of the certification system – as endorsed by a survey[48] that found that nine out of ten consumers trust Fairtrade: a significantly higher rate than for Rainforest Alliance and Soil Association, the other labels tested in the survey. So, Fairtrade clearly gives consumers the opportunity to make ethical purchasing decisions and contribute to reducing poverty through their everyday shopping.

Fairtrade is also unique as a certification scheme in being supported by a widespread grassroots movement, with more than 500 local community campaigns in the UK alone,[49] as well as thousands of schools, universities and faith groups at the forefront of building awareness and consumer demand for Fairtrade.

Thousands of events are organised every year – particularly during Fairtrade Fortnight – to inform and inspire the public to choose Fairtrade as a way of expressing their commitment to fairer trade and their solidarity with workers across the world. By developing locally embedded partnerships with businesses, local authorities, decision makers, schools and community organisations, the many hundreds of Fairtrade Towns act as multipliers throughout their communities, securing institutional commitments to sourcing Fairtrade, and helping grow awareness of the FAIRTRADE Mark to nearly 80 per cent of the UK population.[50]

5.3 The commercial role Fairtrade plays for businesses

When the Fairtrade Foundation started out 20 years ago, ethics and social responsibility were often an afterthought for businesses. But today, they are increasingly found at the heart of corporate operational planning.

Fairtrade is an ideal partner for companies wanting to create sustainable business models, delivering against the triple bottom line of social, environmental and economic development. The double dividend for companies is that they can tell their sustainability story through their work with Fairtrade while connecting with their supply chain to create more sustainable business.

As the Fairtrade sector continues to grow, companies are moving from simple compliance with Fairtrade Standards to a much deeper commitment. For example, The Co-operative completed the conversion of 100 per cent of its bananas to Fairtrade in 2012, and by the end of 2013 aims to be 90 per cent of the way to achieving its ambitious target of: 'If it can be Fairtrade, it will be.'

47 ISO 65 (EN 45011) is the leading internationally accepted norm for certification bodies operating a product certification system, www.ioas.org/iso65.htm
48 GlobeScan *Fairtrade International Consumer Awareness Survey June 2011*
49 Known as the Fairtrade Towns campaign, it extends to villages, cities, islands and boroughs
50 Seventy-eight per cent of adults recognise the FAIRTRADE Mark, TNS survey, March 2012

Also during 2012, Ben & Jerry's completed the conversion of all of their ice cream to Fairtrade – a journey that started with their launch of the first-ever Fairtrade ice cream in 2005. And, following conversion of four-finger Kit Kat to Fairtrade in 2010, Nestlé is doubling its commitment to Fairtrade cocoa by making two-finger Kit Kat Fairtrade from January 2013. This involves purchasing an additional 5,300 tonnes of Fairtrade cocoa, benefiting 4,500 newly certified producers.

Rightly, these companies see Fairtrade as a clear business benefit: they know that if they treat their producers fairly, they can improve their security of supply and deepen investment in quality and productivity, while improving their environmental and social impact. And consumers clearly want this. Recent research shows that just under 40 per cent of British consumers not only believe in Fairtrade but act on their belief through purchasing Fairtrade products and telling others about its benefits.

High awareness of the FAIRTRADE Mark and the reassurance that third-party verification brings – combined with consumer expectations that Fairtrade supply chains 'do the right thing' – means that businesses can help reduce poverty and protect the environment while also building a more sustainable future for themselves and for others.

More than 700 companies in the UK are licensed to sell and trade in Fairtrade commodities, contributing to sales of £1.32bn in 2011. With Fairtrade sales continuing to show double-digit growth even though the UK economy is flat-lining, there are clear commercial benefits for companies to carry the FAIRTRADE Mark. It is this balanced win–win – for producers, companies and consumers – that makes Fairtrade unique.

FAIRTRADE AT THE OLYMPICS

In addition to Fairtrade Fortnight, the Fairtrade Foundation harnesses the vibrant and wide-ranging support for Fairtrade at other opportunities – for example, at the London 2012 Olympic and Paralympic Games. First, by working with the games organising committee on their London 2012 Food Vision, a sustainable catering strategy that stipulated that all bananas, sugar, coffee and tea at Olympic and Paralympic venues must be Fairtrade.

To celebrate and publicise this major commitment, members of the public took part in the Foundation's Team Fair activities throughout the summer, from the very start of the Olympic torch relay to the closing ceremony. Team members got involved in community events around the torch relay, sharing photos online of all the Fairtrade products they came across at venues, and waved special Team Fair flags along the way. This enabled Fairtrade supporters to engage new audiences and show just how much the UK cares about a better deal for farmers and workers.

During the six weeks of the London games, spectators consumed an estimated 10 million Fairtrade bananas from the Windward Islands and South America, 14 million cups of Fairtrade coffee and 7.5 million cups of Fairtrade tea, along with 10 million sachets of Fairtrade sugar grown by farmers in Belize. This generated an estimated £100,000 in Fairtrade Premiums for communities in developing countries to invest in community projects such as sports fields, schools, clinics and clean water.

6. CONCLUSION

Growing sugar cane provides a livelihood for millions of small-scale farmers, plantation workers and their families in developing countries, and for millions more in related industries. Much of it is grown in poor communities, often in Least Developed Countries, where roads and infrastructure are poor and governments are unable to provide adequate levels of healthcare and education or access to clean water and electricity.

Most cane sugar is sold to the domestic market, where prices are volatile and generally low. Producers jostle to participate in the far more lucrative global export market. This means negotiating complex and evolving trade rules in an increasingly liberalised market, where the power is held by governments and the shrinking number of powerful companies that operate across the supply chain.

The requirement to meet rigorous Fairtrade Standards encourages farmers to put in place procedures and processes that strengthen their organisations. Support on the ground from Fairtrade International's network of liaison officers enable farmers to become better organised and more professional in their business activities. This helps farmers to negotiate with mills, build partnerships with buyers and develop valuable business skills.

Cane farmers can also improve incomes by investing their Fairtrade Premium in improving cane quality and productivity, and can move up the supply chain by contracting mills to process their cane. In time, they may have the chance to become mill owners in their own right. They can also invest the premium in selected social projects to improve the lives of their families and communities.

WHAT YOU CAN DO

- Switch to Fairtrade sugar or keep enjoying it if you already do – in moderation, of course.
- Check out the wide selection of Fairtrade sugar at www.fairtrade.org.uk/products.
- Support brands from dedicated Fair Trade companies like Cafédirect, Clipper, Equal Exchange and Traidcraft.
- Ask your supermarket to stock more sugar products carrying the FAIRTRADE Mark and to switch its own-label sugar to Fairtrade if it hasn't already.
- Ask your workplace, local authority, schools, shops and cafés to switch to Fairtrade sugar.
- Ask your friends and family to do the same.
- Get involved in your local Fairtrade Town campaign. Find your nearest group at www.fairtrade.org.uk/towns.
- 'Like' us on Facebook (www.facebook.com/FairtradeFoundation) and follow us on twitter @FairtradeUK!
- Support the World Development Movement's campaign to end the opportunistic speculation in commodity markets that causes dramatic rises and falls in the prices of staple foods (www.wdm.org.uk).

www.fairtrade.org.uk

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