

FAIRTRADE FOUNDATION COMMODITY BRIEFING: SUGAR

SUMMARY

The global sugar industry

- The sugar industry supports the livelihoods of millions of people – smallholders and estate workers, workers in the wider industry, and family dependents.
- 160 million tonnes of sugar are produced every year in 123 countries around the world.
- About 80% of production comes from sugar cane – grown in the tropics – and 20% from sugar beet – grown in temperate climates including Europe.
- The largest producers are Brazil (22%), India (15%) and the European Union (10%).
- 70% of sugar is consumed in producer countries and 30% traded on the international market.
- Developing countries earned \$33.5bn from the \$47bn export sugar trade in 2011.

Why Fairtrade is needed

Sugar farmers are not getting a fair price

- The price received by farmers often falls below their costs of production, leaving farmers in debt and contributing to the widespread poverty in sugar cane growing communities.
- In real terms – adjusted for inflation – sugar prices show a long-term downward trend, indicating that farmers' earnings from sugar have failed to compensate for rising farm costs and household expenses.
- Most of the money from the sugar trade is made in consuming countries where it is refined and packaged for retail or used as an ingredient in confectionary and soft drinks.
- Cane growers typically receive around 14% of the UK retail price of a packet of sugar.

Volatile prices lead to economic instability for sugar farmers

- World sugar prices are set at commodity exchanges in New York and London.
- Sugar prices are highly volatile – they hit a 30-year high in February 2011 before plummeting 45% a year later (Figure 1).
- Speculators – index funds betting on price movements – add to price volatility.
- Prices volatility makes it hard for farmers to predict their income, budget for farm and household expenses, and provide adequately for their families.

Figure 1: World raw sugar prices 1982 – 2012 (monthly averages, US cents/lb)



Source: Sugar No.11 Contract, NY ICE

Farmers are at the bottom of the global supply chain

- Sugar cane farmers simply harvest their crop then sell it immediately to local mills.
- A lack of market knowledge can leave farmers' organisations with little power to negotiate with mills and vulnerable to being paid below market price.
- Mills process the sugar and market it domestically or for export, reaping the financial rewards of these value-added activities.
- Further lucrative refining and packing activities are carried out in consuming countries.
- Sugar is a highly concentrated market: six companies control around 60 per cent of global sugar trade – ASR, Cargill, Czarnikow, ED&F Man, Louis Dreyfus and Sucden.
- And in the EU, five companies account for around 80% of EU sugar beet processing capacity and 72% of the EU sugar market – Associated British Foods, Tate & Lyle Sugars, Tereos, Sudzucker, and Nordzucker.

Changes in global trade are squeezing sugar cane producers

- Barriers imposed by governments to protect domestic sugar industries have made sugar one of the most distorted commodity markets in world trade.
- The EU sugar regime notably included production quotas, high prices and subsidies for its beet farmers which led to dumping of surpluses on world markets.
- This contributed to global oversupply and low prices, damaging the livelihoods of cane farmers in poor countries.
- Least Developed Countries (LDC) and former colonies from the Africa, Caribbean and Pacific (ACP) group of countries have benefitted from duty-free access to EU markets, import quotas and high prices – to support national economic development and to ensure supplies for EU cane processors.

- Ongoing reform and liberalisation of the EU regime is eroding this protection, forcing LDC/ACP producers to compete for market access with lower-cost producers and for lower, more volatile prices.
- Cane sugar producers will need resources to invest in improving productivity and efficiency to be able to compete in the liberalised global market in which LDC/ACP producers are likely to be the biggest losers.
- EU reforms prompted restructuring of the EU beet sector and resulted in reduced production. But adverse weather has hit production elsewhere, causing an unforeseen supply shortage and record world market prices, along with much disagreement about how the reforms should proceed.

Sugar cane communities urgently need development

- For many countries sugar is one of the most important providers of employment and a source of vital foreign exchange for governments to invest in infrastructure and services.
- Sugar cane farms are located in rural areas where provision of clean water, education, healthcare, transport and electricity is often inadequate.
- Cane farmers typically subsist on between \$1 and \$5 a day, growing food crops such as maize and supplementing their income from cane with cash crops, livestock, casual labour and running small enterprises.
- They face rising costs for farm inputs, food, fuel, transport, school fees and medical bills.
- Cane production is increasingly being disrupted by the effects of changes in weather patterns related to global warming but farmers lack the resources to invest in adaptation or mitigation strategies.

How Fairtrade works

Fairtrade supports empowerment of sugar cane farmers

Uniquely, Fairtrade empowers farmers to address key social, economic and environmental challenges. It provides additional income for farmers to invest in community projects such as clinics, classrooms and clean water, or in environmental stewardship. It can also be invested in technical services and agricultural programmes to increase yields and quality and improve efficiency and competitiveness – enabling farmers' organisations to offer reliable and sustainable supplies of sugar.

Key provisions and objectives of Fairtrade Standards:

- Fairtrade certified cane sugar is open to small producer organisations that are owned and governed by their members,
- By working as a group farmers can develop their business skills and have a stronger presence in the market.
- On top of prices negotiated with buyers, producers are paid a Fairtrade Premium of \$60 a tonne to invest in community, business or environmental projects.
- Pre-finance of up to 60 per cent of the purchase price is available on request.
- Standards promote long-term trading partnerships and equitable business relationships.

- Environmental standards promote sound agricultural practices focusing on minimised and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources, no use of genetically modified organisms.
- Forced labour and child labour are prohibited.

Fairtrade's impact for sugar cane farmers

There are now 69 Fairtrade certified sugar cane producer organisations representing 37,000 farmers across 15 countries in Africa, Asia and Latin America. In 2011 they sold 185,000 tonnes of Fairtrade cane sugar, generating €7.4m in Fairtrade Premiums to invest in projects chosen by their members.

- Kasinthula Cane Growers' Association (KCG) is located in southern Malawi, where high temperatures, drought, floods and occasional famine are part of everyday life. The premium has been invested in replanting cane fields to increase yields and incomes; boreholes have been sunk to provide clean water; a small clinic has been extended and equipped with drugs and medical staff; a new primary school means children can start school at an earlier age; and financial support for a government scheme is making electricity available to households for the first time.

- Manduvirá Co-operative in Paraguay was originally formed to help farmers access credit and work together to improve their remote community. They have used the premium to build a health centre with medical team, dentist, optician and laboratory services – available to the whole community and the only one in the region. Fairtrade has enabled Manduvirá to move up the supply chain and take control of its future – from originally selling cane directly to a local mill; to marketing its own cane, processed by a subcontracted mill; to constructing the first producer-owned mill in the country, part-funded by the Fairtrade Premium.
- Belize Sugar Cane Farmers Association (BSCFA) is located in the ‘sugar belt’ area of northern Belize where cane growing is an important provider of rural incomes. But reduced EU prices, rising costs and poor harvests have made it hard for farmers to invest in production. Since Fairtrade certification in 2008, premiums have been invested in boosting productivity and incomes through: the distribution of free fertilisers and herbicides; a large-scale soil analysis project; an integrated pesticide programme; and an extensive, ongoing cane replanting and quality control programme.

Fairtrade building public awareness

Many UK consumers are concerned about the impact of their purchases and want to be reassured that products from developing countries are ethically and responsibly produced. The Fairtrade movement and grassroots networks organise thousands of events each year to promote Fairtrade among consumers and businesses, with the result that 78% of UK consumers now recognise the FAIRTRADE Mark.¹ Purchasing Fairtrade goods gives consumers a powerful and credible way of addressing their concerns and reducing poverty through their everyday shopping.

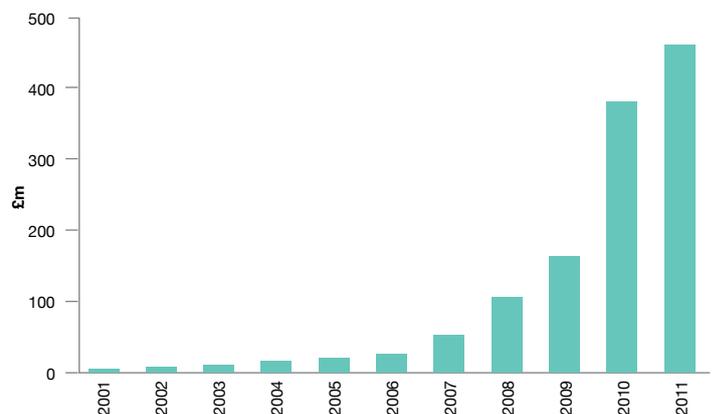
Fairtrade makes commercial sense

Companies are increasingly incorporating ethics and social responsibility in their corporate operational planning. With its high consumer awareness and consumer trust², working with Fairtrade enables companies to connect with their supply chains to build a more sustainable business while at the same time helping to reduce poverty and protect the environment in producer communities.

A growing Fairtrade sugar market

Increased consumer demand and greater product availability saw global sales of Fairtrade sugar reach 185,000 tonnes in 2011 – up 66% on 2010. In the UK, consumers spent £464m on Fairtrade sugar products³ in 2011 – almost three times as much as in 2009. Around 1,500 Fairtrade certified sugar products from 180 companies are now available – mainly biscuits, cakes and chocolate confectionary products, including Cadbury Dairy Milk, Kit Kat and Maltesers. Retail bagged sugar is widely available, including supermarket own-label ranges, and now accounts for a 33.5% share of the market.⁴

Figure 2: How UK retail sales of Fairtrade sugar have grown (£m)



Source: Fairtrade Foundation

1 TNS March 2012

2 *Nine out of ten consumers say they trust Fairtrade*, GlobeScan survey for Fairtrade International, June 2011

3 These figures represent the sugar part of all Fairtrade products containing sugar

4 52 weeks to week ending 23/6/12, Nielsen 2012

To read the full Fairtrade Foundation Sugar Briefing, visit www.fairtrade.org.uk/sugarbriefing

www.fairtrade.org.uk

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