SUGAR CRASH

HOW EU REFORM IS ENDANGERING THE LIVELIHOODS OF SMALL FARMERS

A Fairtrade Foundation Report
February 2015

FAIRTRADE FOUNDATION

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1/ EXECUTIVE SUMMARY

A NEW APPROACH IS NEEDED. THE FAIRTRADE FOUNDATION IS CALLING FOR THE EU TO CONVENE AND LEAD A NEW INITIATIVE, BRINGING TOGETHER GOVERNMENT, BUSINESS AND CIVIL SOCIETY.

Reform of the EU sugar market is set to put the livelihoods of hundreds of thousands of smallholder farmers in Africa, Caribbean and Pacific (ACP) and Least Developed Countries (LDC) at risk.

Many of these farmers and their families have been supplying Britain with sugar for 50 years or more. Indeed, more than a quarter of the cane sugar imported into the EU from ACP and LDC countries comes to the UK.

A European Union quota system capping EU beet sugar production, which enabled producers in developing countries to maintain their foothold in the European Union market, is set to end in 2017. As a result, farmers in countries such as Guyana, Jamaica, Malawi, Fiji and Swaziland, who have relied on exporting sugar to the EU and have few other options, are facing the prospect of being squeezed out of the EU sugar market.

This is not a levelling of the playing field. European sugar producers receive a subsidy from the EU, in the form of single farm payments. In 2014, these were approximately £195.41 per hectare, equivalent to around 1.8p for every 1kg of sugar. Sugar cane farmers in ACP and LDC countries receive no subsidy from the EU.

To make matters worse, the EU's reforms coincide with a sharp slump in the global sugar price, which has halved in three years. Together, these two changes threaten disaster for small-scale farmers and their communities.

According to the Department for International Development's own research, the end of the European Union quota alone could push 200,000 people in ACP countries into poverty by 2020. When combined with low sugar prices, the picture could be much worse.

Threatened too is the future of Fairtrade sugar – one of the success stories of the movement, which has changed the lives of small-scale sugar cane farmers, helping them to increase their productivity, improve their businesses, and invest in a wide range of community projects.

Although the EU has provided funding to support sugar cane farmers through the transition, it has not always been directed effectively and in many cases its impact will not be felt in time.

A new approach is needed. The Fairtrade Foundation is calling for the EU to convene and lead a new initiative that brings together government, business and civil society, to jointly fund and deliver programmes to support sugar cane farming communities through this difficult period.

As the UK accounts for more than a quarter of the EU's cane sugar imports from ACP and LDC countries, the Department for International Development should take a lead in supporting and funding this initiative, and review other programmes through which it can support sugar cane farmers.

UK shoppers can also play their part, by standing by the sugar farmers that have been failed by politics, and showing their support by choosing Fairtrade sugar – or cane sugar from developing countries – where available, or asking their supermarket to stock it.

> FAIRTRADE GOES BEYOND EXTRA PAYMENTS, IT'S ABOUT CREATING NEW OPPORTUNITIES. THE FARMERS BENEFIT, THE COMMUNITY BENEFITS, KIDS BENEFIT, EVERYONE BENEFITS. IT'S A PARTNERSHIP I HOPE WE CAN KEEP FOREVER.

Alexia Ludford-Bell, sugar cane farmer, Jamaica

2/ WHERE OUR SUGAR COMES FROM

Whether stirred into tea and coffee, counteracting the bitterness of cocoa beans or supplying the essential sweetness of cakes, biscuits and pastries, sugar is a popular food.

By volume and value, it's one of the most important agricultural crops in the world – with over 180 million[1] tonnes produced annually.

Yet unlike most other commodities sugar comes from two distinct species of plant: cane and beet.

Around 70 percent of global supply[2] comes from cane (*saccharum*) which sprouts like bamboo in tropical zones. Sugar beet (*beta vulgaris*) grows underground in temperate countries.

While cane provides many specialist sugars such as Demerara, golden, soft brown and muscovado, cane and beet sugar are identical in their refined white form for sweetening foods.

They are grown in very different economies, though. While sugar beet is farmed in Europe as part of a cycle of crops, cane sugar is grown in the global south where it will often be the only crop grown on that land. Even when there are other crops, sugar cane farmers are often heavily reliant on sugar cane for their income.

Cane sugar supplied to the UK and the EU often comes from small-scale, family farmers in developing countries, who are reliant on sugar cane for their income. Often they are bound by unfair contractual terms and subject to unfair trading practices, due to large imbalances of power in sugar supply chains.[3]

Many of these farmers and their families have been supplying Britain with sugar for 50 years or more. Indeed, more than a quarter of the cane sugar imported into the EU from ACP and LDC[4] countries comes to the UK.

In recent years, the EU has continued to encourage farmers in some of the poorest countries, who have access to EU markets, to grow sugar cane for export so that they can use trade as a way out of poverty. In Malawi, for example, the EU has put considerable resources behind the expansion of the sugar cane sector.

NOW THESE SMALLHOLDER SUGAR CANE FARMERS NEED OUR HELP.

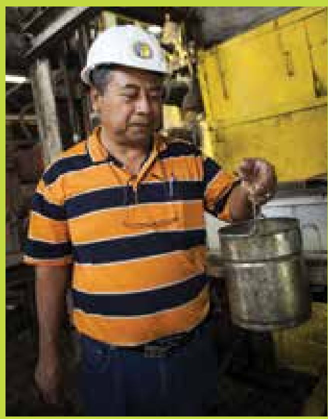
SUGAR CANE

SUGAR CANE REQUIRES LOTS OF SUN AND WATER. THE CROP IS HARVESTED 12-18 MONTHS AFTER PLANTING AND CUT FOR UP TO SEVEN YEARS BEFORE REPLANTING.

STEP BY STEP:

1. SUGAR CANE IS HARVESTED BY CHOPPING DOWN THE STEMS

2. THE CANE IS TAKEN TO FACTORIES FOR PROCESSING



3. JUICE IS EXTRACTED, AND THEN TURNED INTO A SYRUP AND BOILED

4. SUGAR CRYSTALS APPEAR, AND ARE DRIED AND STORED

SUGAR BEET

THE BEETS ARE DUG OUT OF THE GROUND, TRANSPORTED TO FACTORIES AND SLICED INTO THIN CHIPS TO EXTRACT JUICE WHICH IS BOILED TO FORM SUGAR CRYSTALS. THE CRYSTALS ARE DRIED AND STORED.

GLOBAL THREAT

Hundreds of thousands of sugar producers, including 62,200 farmers who supply Fairtrade,[5] face a deeply troubled future.

A European Union quota system capping EU beet sugar production, which enabled producers from ACP and LDC countries to maintain a foothold in the European Union market, is about to end. In addition to this substantial reverse, the global price for sugar has halved in three years.[6]

For smallholder cane sugar producers in countries that currently rely on trade with the EU, such as Fiji, Jamaica and Guyana, these twin changes threaten disaster.

Sugar production is an important constituent of the economies of many small, poor countries. Whole communities in these countries are dependent on sugar. For example, sugar accounts for 40 percent of the value of exports from Belize,[7] and the sugar industry is the second largest employer of labour in Jamaica.

According to research for the British Government, the end of the EU quota alone could push 200,000 people in ACP countries into poverty by 2020.[8]

This report published for Fairtrade Fortnight 2015, shows the growing danger to some of the world's poorest farmers, who for decades have added sweetness to the everyday lives of Britons – and sets out what shoppers and politicians can do to help them.

THIS REPORT, SHOWS THE GROWING DANGER TO SOME OF THE WORLD'S POOREST FARMERS, – AND SETS OUT WHAT SHOPPERS AND POLITICIANS CAN DO TO HELP THEM.

3/ FAIRTRADE SUGAR: A SWEET STORY

Of all the Fairtrade products in British shops, sugar has been one of the most successful.

In the 12 months to November 2014, more than 40 percent of sugar sold in the UK's supermarkets was Fairtrade,[9] a higher proportion than Fairtrade chocolate, coffee, tea or bananas. It's one of the movement's proudest achievements.

FAIRTRADE AND HEALTH

The Fairtrade Foundation supports efforts to combat obesity and believes that sugar should be consumed in moderation, as part of a healthy and balanced diet. It would not wish to encourage increased consumption of sugar, rather when UK shoppers and businesses buy sugar it would encourage them to choose cane sugar, and Fairtrade where possible, because of the difference that it can make to the lives of some of the world's poorest farmers and workers.

Helping communities

Fairtrade exists to make global trade fairer for the poorly paid smallholder farmers and workers who grow many of the commodities we take for granted every day: cocoa, tea, coffee, bananas. In sugar, Fairtrade works exclusively with smallholder farms.

Support usually comes in two ways. Firstly, through a Fairtrade Minimum Price that eliminates the worst dips on the rollercoaster of global markets, helping farm communities to plan and expand production. Secondly, through a Fairtrade Premium which is paid on top of the price paid for their crop, and invested through collective decision-making, to benefit their businesses and communities.

GLOBAL OR LOCAL?

Sugar cane provides a vital livelihood for hundreds of thousands of small-scale family farmers and workers in developing countries. They have supplied sugar to the UK market alongside European sugar beet producers – including around 3,500 UK farmers[10]– for generations.

While UK sugar beet farmers will often have other crops, sugar cane farmers in the developing world usually rely on sugar cane for their livelihood and in many cases have few other options.

While it may be assumed that buying local produce is more sustainable, this is not always the case. Fairtrade Standards cover economic, social and environmental sustainability – for example, farmers have to implement an environmental plan and phase out use of certain chemicals. A study commissioned by Swiss supermarkets, for example, found that organic Fairtrade cane sugar from Paraguay had a 40 percent smaller carbon footprint than sugar made from locally grown beet in Switzerland,[11] highlighting that it is important to consider the total carbon footprint of a product (including inputs, production and transportation), rather than just food miles.

Fairtrade believes there is space in the market for both local sugar farmers and those in the developing world – buying Fairtrade and buying locally grown need not be mutually exclusive.

Unlike for many other products, there is no Fairtrade Minimum Price for sugar; something made unfeasible by the complexities of the global sugar market (which regularly features government-set prices and other intervention).

Instead, food companies pay the farmers' organisations a Fairtrade Premium of $60 per tonne of sugar (or $80 per tonne for organic sugar) in addition to the price they receive. In 2013, sugar farmers received over £7m in Premium income.[12]

Typically, farmers' organisations invest the Fairtrade Premium in a mix of business and community projects. These might include inputs such as fertilizers and services to increase the productivity of their farms, reduce the environmental impact of farming, and strengthen their democratic organisations. Social projects can include educational grants, health clinics and improvements to community infrastructure.

Fairtrade has been working with smallholder farmers in Africa, Latin America and the Caribbean, Asia and Oceania since the late 1990s.

While the total proportion of global sugar trade certified by Fairtrade remains tiny – about 1 percent of sales – until now the Fairtrade certified proportion of the market has been expanding rapidly.

BENEFITS OF FAIRTRADE

Water pump paid for with Fairtrade Premium, Malawi

- Fairtrade helps farmers build strong and democratic producer organisations
- These farmer organisations democratically decide how to use their Fairtrade Premium
- Strict, audited and progressive standards improve sustainability, covering its economic, environmental and social elements
- The Fairtrade model encourages increased productivity and quality
- The Fairtrade Premium gives farmers the opportunity to invest in their community.

There are many examples of Fairtrade in action in sugar-producing communities. In Malawi, for instance, farmers have used the Premium to build essential community infrastructure such as water boreholes, building a primary school and bringing electricity to villages. In-kind support to farming families through provision of maize, essential household goods has improved food security in the region. Unlike for many other products, there is no Fairtrade Minimum Price for sugar. The Fairtrade Premium is $60 per tonne of sugar or $80 per tonne for organic sugar.

IN THE UK, THE RETAIL SALES VALUE OF FAIRTRADE CERTIFIED CANE SUGAR SOLD IN SUPERMARKETS WAS £115.9M IN THE 52 WEEKS TO 11 NOVEMBER 2014, A MARKET SHARE OF 40 PERCENT.[14]

Between 2010 and 2013, the amount of Fairtrade sugar sold leapt by 54 percent, from 137,000 tonnes generating a Premium of around £5.4m to 211,600 tonnes, generating a Premium of around £7.3m.[13] British shops, food manufacturers and consumers have a particularly strong record in supporting Fairtrade sugar.

Some of the nation's favourite and leading brands, including Cadbury Dairy Milk, Kit Kat and Maltesers, source their sugar on Fairtrade terms. As do Green & Black's and Divine chocolate, Ben & Jerry's ice cream, and Fairtrade pioneers such as Traidcraft.

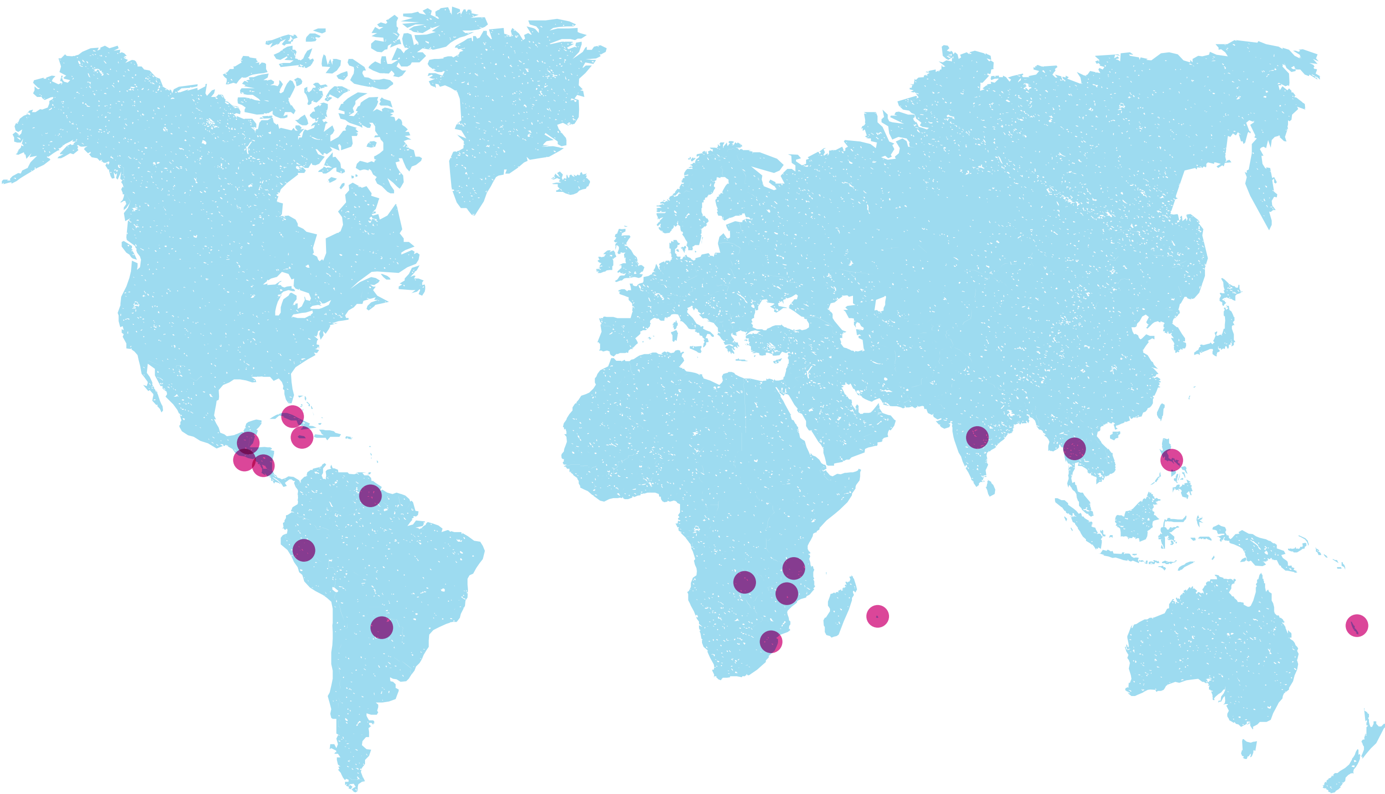
It is also stocked by major supermarkets such as Sainsbury's, the Co-operative, and Waitrose who offer own-label Fairtrade sugars.

The historic British supplier Tate & Lyle Sugars – a strong partner of Fairtrade – supplies a wide range of Fairtrade certified sugars to supermarkets, restaurants and food manufacturers.

All the major UK and Northern European sugar companies have some form of Fairtrade offer.

Fairtrade sugar has been a success story – it has changed the lives of small-scale sugar cane farmers, helping them to increase their productivity and invest in a wide range of community projects.

FAIRTRADE SUGAR COMES FROM 62,200 SMALLHOLDER SUGAR CANE FARMERS IN 17 COUNTRIES



BELIZE • COSTA RICA • CUBA • EL SALVADOR • FIJI • GUYANA • INDIA • JAMAICA • MALAWI • MOZAMBIQUE • MAURITIUS • PARAGUAY • PERU • PHILIPPINES • SWAZILAND • THAILAND • ZAMBIA

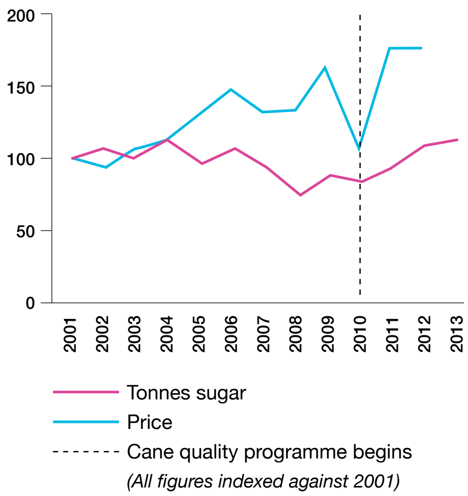
BELIZE: DELIVERING IMPACT

Sugar is vital for Belize, with 15 percent of the country's 340,000-strong population depending upon it. According to the Ministry of Agriculture, 'the entire northern part of the country depends on the industry'.

Since Fairtrade, a quality improvement programme and better pest management have boosted production post-2011 by 21 percent, increasing the revenue received by farmers by 30 percent, measured against a 10-year average.[15]

Fairtrade Premium earned has allowed the recruitment of a technical team to improve the quality of the cane. Better planting and farm maintenance has meant better maintained fields and faster harvesting by the cutters.

PRICE AND PRODUCTIVITY IN BELIZE



Fairtrade has also helped improve efficiency after harvest. Previously large numbers of trucks carrying cane would arrive at the single mill in Belize at the same time – meaning they would end up queuing. As the sucrose content of cane falls after cutting, and farmers are paid partly according to the amount of sugar the mill can extract, this reduced the income for the farmers. Working with the farmers and the mill, the Belize Sugar Cane Farmers Association (BSCFA) introduced a new scheduled delivery system, reducing the 'kill to mill' ratio from an average 136 hours to 36 hours.

This efficiency has not only improved sugar quality significantly but also meant a better quality of life for farmers who no longer need to wait in endless queues to deliver cane during the six-month harvest cycle.

‘We received support from BSCFA to start a feeding programme during lunch for our kids at the school. I noticed that during the lunch break several kids would come back in 10 minutes as they wouldn’t get lunch at home. No kid should go hungry during school so we asked the Association to support us. We’ve used the funds to buy kitchen equipment, a refrigerator, microwave oven and support the kids who are going without lunch with a free lunch.’

Carlos Itzab, Principal
Chan Chen Primary School, Belize

Farmers have also learned how better to protect themselves against the froghopper, a pest which destroys sugar cane, by using biological cures, reducing reliance on expensive chemical pesticides.

Fairtrade Premium has also provided scholarships for the children in the community. Over the last four years, 1,474 students have been supported with educational grants and scholarships to help them through primary, secondary or higher education.

IMPACT OF THE EU REFORMS

Belize is considered the lowest cost ACP country from the Caribbean, which means it is one the best-placed in this region to remain a viable exporter to the EU after the reforms. However, it will require a considerable and concerted effort – and investment – to improve productivity and lower costs in order to stay competitive.

“WE GOT AN EDUCATIONAL GRANT FOR MY GRANDSON AND MY DAUGHTER FROM FAIRTRADE. AND THAT’S A GREAT HELP FOR US. MY DAUGHTER IS USING THE GRANT TO STUDY AGRICULTURE TO TAKE OVER THE FAMILY FARM AND THE GRANT SUPPORTS MY GRANDSON’S SCHOOL FEES, SHOES, BOOKS AND UNIFORM.”

Rudelia Vasquez, sugar cane farmer, Belize, pictured above with her grandson Archilec Vasquez

> **I HAVE BEEN IN THIS INDUSTRY FOR OVER 45 YEARS AND I HAVE NEVER SEEN ANY OTHER PROGRAMME THAT CAN DO AS MUCH GOOD FOR FARMERS AS FAIRTRADE CAN.**
>
> *Robert G F Clarke,*
> *Co-Managing Director of*
> *Worthy Park Estate Sugar Mill*

JAMAICA: FAIRTRADE JUST ARRIVED

The sugar sector is essential to the Jamaican economy and is the mainstay of many rural regions. It is the largest industry within the agricultural sector, and the Jamaican Sugar Industry Authority estimates that approximately 200,000 people, representing 8 percent of Jamaica's total population, earn their living either directly or indirectly from the sugar industry.[16]

Fairtrade sugar is only just beginning its life in Jamaica. However, tragically, the EU reforms look like it will cut this short.

Six smallholder associations became Fairtrade certified in 2012, with one more the year after. As a result there are 4,500 active Fairtrade certified sugar cane smallholders in Jamaica.

For every tonne of sugar sold under Fairtrade terms, the smallholders associations receive US$60 in Fairtrade Premium to invest in their businesses and their communities.

What's happened so far?
The first sales of sugar under Fairtrade terms were made in 2013, so they are only just beginning to see the impact. However some impressive results are already being seen as a result of the certification process and the first payments of Fairtrade Premium.

Organisational
Prior to certification most farmer associations had dormant bank accounts and accounting systems. These have now been reinstituted and all associations are enrolling accountants to ensure Fairtrade Premium is accounted for transparently. All farmer associations are holding annual general meetings and elections and proper minutes are taken.

Environment
As is the case in many smallholder organisations not linked to Fairtrade or organic certification, there were no environmental plans in place previously. Working with Fairtrade, the Jamaican Sugar Industry Institute removed the herbicide Paraquat from its list of recommended agrochemicals for sugar cane production. Paraquat, which was used by a significant proportion of smallholder farmers, is prohibited by Fairtrade Standards. All associations – each of which has an environmental plan – now have a phase-out plan for Paraquat.

Productivity
Despite the limited amount of time that these farmers have received Fairtrade Premium, the impressive achievements to date show just what can be achieved when organised farmer groups are given access to funds.

North St Elizabeth Cane Farmers Association has taken over the administration of contracts for harvesting and haulage, eliminating delays in getting cane to the mill. This has led to better quality cane and fewer quality-based price reductions – and deliveries have increased from 300 tonnes a day to 1,000 tonnes a day.

The farmers have also implemented a rodent control programme, to prevent damage to the sugar cane roots. Worthy Park Cane Farmers Association has invested US$145,400 of Fairtrade Premium in fertilizers to improve productivity. A further US$2,259 is paying for five donkeys to carry the cut cane up the steeply sloping cane fields.

Social
At Worthy Park, the Fairtrade Premium has been used for improvements that benefit the whole community, for example road repairs and access to a health clinic. North St Elizabeth Cane Farmers Association has funded a community outreach programme, which has made nine financial assistance awards to help with the costs of children's education.

IMPACT OF THE EU REFORMS

Within the sugar industry, Jamaica has relatively high production costs and despite continuing attempts to reduce those costs, it may turn out to be uncompetitive as a long-term exporter to the EU.

Building a refinery in Jamaica to produce white sugar for the internal Jamaican market and other Caribbean countries is one potential solution being discussed in the industry. However other countries in the region are looking at the same potential opportunity. Another possible solution is co-generation, which involves using the sugar cane's by-products to generate energy. The future for Jamaica's smallholder farmers is far from certain.

"I AM PROUD TO BE A COMMITTEE MEMBER OF KASINTHULA ASSOCIATION. WITH THE FAIRTRADE PREMIUM, WE HAVE CONSTRUCTED A CLINIC AND HOUSES FOR THE FARMERS AND DRILLED BOREHOLES SO THAT WE HAVE SAFE, CLEAN WATER."

Henry Matenda, sugar cane farmer, Malawi, pictured with his daughter Esthery

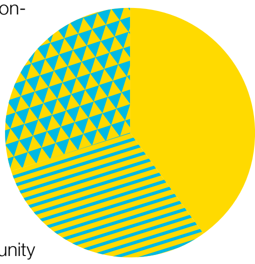
MALAWI: SUPPORTING VULNERABLE COMMUNITIES

In the south of Malawi, one of the poorest countries in the world, is the Kasinthula Cane Growers Association (KCGA).

The farmers' association of 762 farmers was Fairtrade certified in 2002 and supplies sugar on Fairtrade terms to a growing number of companies in the UK and Europe.

At the time of writing much of Malawi and neighbouring Mozambique has been inundated with floods and the Malawian government has declared a state of emergency. This tragic event highlights the vulnerability of these communities.

KCGA's Premium Committee, a democratically elected body representing sugar cane farmers and workers in Kasinthula, divides use of Premium funds as shown below.



Social investments

40 percent of the Premium earned through Fairtrade are distributed equally between farmers as income advances (in kind) that directly support their livelihoods.

The money goes towards paying school fees, materials for building houses, purchase of bicycles and farm equipment as well as electrical appliances for their homes.

A further 30 percent of Premium income is directed to community projects, including access to safe drinking water – a life saver in the dry Shire valley region of Malawi.

Many people used to draw water directly from the Shire river, which was very dangerous with people losing limbs – and lives – in crocodile attacks. A significant number of boreholes have now been built for use by the community in the villages where KCGA farmers are from.

The first borehole was dug in the village of Kapasule in March 2004 securing water access for the 500-plus villagers who no longer have to use the river or make the 2.5km walk to Siseu village to collect clean water. Projects to pipe water to homes have been supported. Other community projects include bringing electricity to villages and community health projects – such as the Kasinthula bilharzia clinic, which is now fully functional and equipped with drugs to fight bilharzia, a debilitating disease caused by parasitic worms that can be contracted when wading through water.

IMPACT OF THE EU REFORMS

Malawi is considered a low cost producer with potential access to alternative markets. The sole refiner in Malawi is part of the Illovo Group, which itself is owned by Associated British Foods. The Illovo Group recently announced that they were looking for new African markets in which to sell their sugar.[17] This would reduce exposure to the European market. It remains to be seen how this will impact smallholders' livelihoods.

PARAGUAY: FARMERS MOVING UP THE VALUE CHAIN

While the sugar industry in Paraguay is not affected by the EU reforms, it is a perfect example of Fairtrade's positive impact on sugar-growing communities.

A group of sugar cane farmers in Arroyos y Esteros, a remote district 70km from the capital Asuncion, had been struggling with unfair prices and unjust trading practices.

Now, in the shape of the Manduvirá Co-operative, they have been transformed into one of the world's leading producers and exporters of organic and Fairtrade certified sugar.

Teachers and farm workers founded the co-operative – which also produces organic sesame, cotton, fruit and vegetables – in 1975 to obtain credit without bank loans and to work together to improve their community.

Before the co-operative was Fairtrade certified in 1999, its members sold their sugar cane to a local mill for processing.

By 2004, the 1,750 members of the co-operative 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.

Using a mill 100km away still wasted money that would be better deployed in the community – so the co-operative built its own brand new mill, at a cost of £10m funded by loans, Fairtrade Premium investment and the Fairtrade Access Fund, which was set up to provide loans and finance to farmers.

Two thousand people attended the opening of the world's first producer-owned Fairtrade organic sugar mill in May 2014, including Paraguay's Vice President.

Now, rather than paying transportation and rental costs, the $15m mill is significantly improving the lives of sugar cane farmers, workers and their communities.

Manduvirá and its mill are a perfect example of how Fairtrade can enable farmers to take greater control of the supply chain and add more value to their final product, ensuring that benefits remain in their community.

Manduvirá Co-operative now exports almost all of its annual production of 20,000 tonnes of sugar to Fairtrade clients in 18 countries.

'WHEN WE STARTED, WE DIDN'T HAVE ANYTHING. FAIRTRADE HELPED US CONNECT WITH THE MARKET. 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.' FAIRTRADE SAID WE COULD.'

Andrés González, General Manager, Manduvirá Co-operative

For Manduvirá, an important benefit of Fairtrade is the option to receive 60 percent of the payment for sales contracts in advance. This enables the co-operative to finance production and pay farmers without taking out expensive bank loans.

WHAT HAPPENS TO THE CO-OPERATIVE'S FAIRTRADE PREMIUM?

FAIRTRADE SALES INCLUDE AN ORGANIC FAIRTRADE PREMIUM OF $80/TONNE.

½

Half has been distributed equally among members to invest in farm improvements or home improvements, such as indoor bathrooms.

½

The remaining 50 percent has been spent on business and community projects, including:

A new health centre, with a medical team, dentist, optician and laboratory services. It is available to the whole community, and the only one in the region.

School uniforms and kits containing pencils, notebooks, rucksacks. Courses for children in computers, languages, art, music, and dance.

Running a savings and credit scheme.

Buying a tractor and plough that co-operative members can hire at a third of the market rate.

IMPACT OF THE EU REFORMS

Paraguay is not an ACP or LDC country, so its sugar farmers do not enjoy duty-free access to the EU. The Manduvirá Co-operative specialises in organic sugar, a premium product that costs more to grow but also attracts a higher price than conventional sugar. Limited availability of organic beet sugar means it is less likely to be affected by the removal of the EU quota on beet sugar in 2017.

However, we include the example of Paraguay in this report to illustrate the way that selling sugar on Fairtrade terms can empower farmers to find solutions that are appropriate to their local context, and which empower them to build a better future.

4/ EUROPEAN REFORMS

TRADE AGREEMENTS

In the past the European Union has helped poor countries to export cane sugar to Europe.

In 1975, for instance, the Sugar Protocol guaranteed duty free access to the EU for 20 African, Caribbean and Pacific suppliers.[18]

However the trend in global trade has been towards the ending of trade tariffs and quotas and the liberalisation of markets – and sugar has been no exception.

As part of the long-running reform to the Common Agricultural Policy, in 2013 the European Union decided to remove the cap on EU production of sugar beet in 2017. This was the latest reform in a series of CAP sugar reforms which began as a response to a World Trade Organisation ruling that the EU had dumped excess sugar on the world market.[19]

The beet quota
Annual production of sugar beet within the EU was capped in an attempt to prevent over-production causing a slump in the price. Since the WTO ruling, any surplus production above the cap, currently 13.5m tonnes, is exported, used for non-human consumption purposes such as to feed livestock, or carried forward to the next year.[20]

EU states consume around 17m tonnes of sugar a year, so duty-free access for cane sugar (including Fairtrade certified sugar) fills much of the gap between the beet sugar quota limit and the amount that is consumed.

But in June 2013, the European Parliament and Council of Agriculture Ministers took the decision to end the quota in 2017. Initially, MEPs voted for the reform to be delayed until 2020, but they later agreed for the cap to be removed in 2017.

Food manufacturers lobbied vigorously for the reform, which is likely to result in cheaper sugar for use in fizzy drinks, chocolate and processed foods. Among those campaigning for the end of the cap was the Brussels-based Committee of European Users of Sugar. It argued the cap was hurting small food companies and food export opportunities for European food manufacturers, because it had led to high sugar prices.

ACP countries, Fairtrade and other NGOs lobbied to delay the reform until 2020, to give more time for transition support to be provided to smallholder sugar cane farmers and their communities in the developing world. Fairtrade highlighted that under its Economic Partnership Agreement negotiations, the EU was making commitments to provide duty-free market access for ACP countries, but this reform would make such access financially unviable.

MIXED MESSAGES FOR SUGAR CANE FARMERS

Since EU sugar reform began in 2006, the EU Commission has been giving contradictory messages to sugar cane farmers, governments of the nations that produce cane sugar for export, and sugar companies in the EU.

With the beet quota in place, and duty-free access available to cane sugar producers from ACP and LDC countries, under Everything but Arms initiatives, there was some belief that in the long-run cane sugar could compete effectively against domestic beet sugar production.

This led business to invest in refineries, increasing the amount of cane sugar that could be refined in Europe.

During this period, the EU also encouraged the conversion of smallholder farms in countries such as Malawi and Swaziland into sugar cane farming. These countries produce far more sugar than is needed for domestic consumption and rely on exports, much of which is currently to the EU.

However, the EU's decision to lift beet quotas in 2017, combined with an increase in the efficiency of beet sugar production, has now left many ACP and LDC countries wondering who will buy their sugar after 2017.

SWEETENING THE PILL

In recognition of the impact that reform of the sugar market would have on ACP producers, in 2006 the EU implemented a transitional relief scheme called Accompanying Measures Sugar Protocol (AMSP).

Countries benefiting from the AMSP were Barbados, Belize, Côte d'Ivoire, Republic of Congo, Fiji, Guyana, Jamaica, Kenya, Madagascar, Malawi, Mauritius, Mozambique, St Kitts and Nevis, Suriname, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Zambia and Zimbabwe.

The €1.245bn Accompanying Measures Sugar Protocol ran from 2006 to 2013.[21] Its stated aims were:

- making sugar cane more competitive
- promoting economic diversity in sugar-dependent areas
- addressing the wider impact of the adjustment process, including employment, social services, land use and environmental restoration, energy, research and innovation and macroeconomic stability.

However, according to the UK's Department for Food and Rural Affairs, the full benefits of the investment made possible by these funds, which have yet to be fully disbursed, are unlikely to be felt by many ACP countries in time to cushion the impact of the reform.[22]

In 2010, an EU evaluation of the first stage of this package stated that with the exception of Mauritius, the programmes had 'delivered few tangible results to date' and that EU delegations and recipient governments had been given 'little time' to design their strategies.[23]

It is not a level playing field. European sugar producers receive a subsidy from the EU, in the form of single farm payments.[24] These are paid per hectare regardless of crop production, and in 2014 were approximately £195.41 per hectare, equivalent to around 1.8p for every 1kg bag of sugar made from beet.[25] A number of EU states have also recently proposed further subsidies for sugar beet farmers which could total almost €200m.[26] Meanwhile, sugar cane farmers in ACP and LDC countries receive no subsidy from the EU.

In a press release about the end of the quota, dated 26 June 2013, the European Commission stated: 'Most developing countries will continue to enjoy unlimited duty-free access to the EU market.'[27]

While developing countries may continue to have duty-free access to the EU market, in practice the abolition of the sugar beet quota system means that many Fairtrade farmers (and other ACP and LDC sugar cane farmers) will find it harder to compete on price for exports to the EU.

Members of Worthy Park Cane Farmers Association invested their Fairtrade Premium in donkeys to carry the sugar cane

Impact study

The changes could be calamitous for smallholder farmers and their communities. A report for the European Commission, *The prospects for Agricultural Markets and Income in the EU 2013 – 2023*,[28] forecasted that sugar imports would almost halve in a decade. Noting that the lifting of the beet quota system would 'lead to a reduction of the domestic sugar price in the EU and make imports less attractive,' it predicted that sugar imports would fall from 3.7m tonnes in 2013 to 1.9m tonnes in 2023.

Such a fall in imports from ACP countries is inconsistent with the EU's commitment to the Sustainable Development Goals (SDGs), the successor to the Millennium Development Goals. Due to be finalised by the world's leaders in September 2015, the SDGs aim to reduce poverty and ensure sustainable development around the world, and have been lauded by UN Secretary General Ban Ki-Moon as 'an unprecedented opportunity to take far-reaching, long-overdue global action to secure our future well-being'.

SDG17, for example, aims to significantly increase the exports of developing countries, with a view to doubling the least developed countries' share of global exports by 2020.

The EU reforms also appear to contradict the sentiment behind the European Year of Development, which is being celebrated throughout 2015.

An independent study of the EU's policy reform for the UK's Department for International Development (DFID) in January 2012 identified the risk that the EU reforms posed for developing countries.

The report, *The Impact of EU Sugar Policy Reform on Developing Countries* found that by 2020, abolition of the EU sugar quota could increase the number of people in poverty worldwide by 200,000.[29]

SLUMP IN WORLD SUGAR PRICE

The EU's sugar reforms are all the more worrying for sugar producers in developing countries because they coincide with a sharp and prolonged fall in global sugar prices.

Within the EU market, sugar prices have declined rapidly from an artificial high in 2013.

This appears to be a market response to the announcement that the beet sugar cap would be removed in 2017, and the release of extra beet sugar onto the EU market. By October 2014, prices for white sugar in the EU had dropped from €640 per tonne to €450 per tonne.[30]

This combination of crashing prices and the ending of the EU quota has alarmed ACP sugar producers.

In December 2014, Guyana's Minister of Foreign Affairs, Carolyn Rodrigues-Birkett, warned:

'This situation is extremely serious and untenable. Small and medium size growers in ACP countries already have to cease activities with considerable political, social and environmental negative impact.

'In one major ACP-producing country, the Government took the decision last week to provide direct support to growers for two years… such budgetary support cannot be sustained.' [31]

DFID's report said that when the world sugar price was low, the combination of that low price and the abolition of the EU quota could mean that as many as 6.7m people might be pushed into poverty, although the low world price would be the primary driver. It stated:

'Results… show that the world market price is more important than EU sugar policies in determining poverty. **For example quota abolition coinciding with low world sugar prices generates about 35 times the poverty increase compared to the status quo with high world sugar prices, equivalent to putting another 6.7m people into poverty.** At country level, the strongest impacts of world prices on poverty arise in countries such as Guyana, Belize and Swaziland that depend heavily on sugar'.[32]

Action needed

This, then, is the bleak reality of the EU's sugar reforms.

At the behest of large sugar users, including food and drink manufacturers and processors, the EU has instituted a policy that will cut access to a key market for some of the world's poorest people – in direct contradiction to its own stated global development goals.

Despite compelling evidence of the potential negative impact for sugar cane farmers and

their communities in the developing world, the British Government supported this policy, which will almost certainly lower the sugar price in the EU to a level that makes access for some farmers in developing countries financially unviable.

Exporters of sugar to the EU will either need to lower their prices or find another market.

At least 200,000 people, and potentially many millions in the global south, are set to be pushed into an even harsher life through no fault of their own. And the sweet success of Fairtrade sugar – one of the shining examples of the movement – could be soured.

Politics have failed these sugar cane farmers.

But that doesn't mean UK shoppers and businesses should.

POLITICS HAVE FAILED THESE SUGAR CANE FARMERS.

BUT THAT DOESN'T MEAN UK SHOPPERS AND BUSINESSES SHOULD.

UNFAIR COMPETITION?

'The major impacts [of this reform] are the sharp decline and severe volatility in price arising from the expanded production of sugar from EU beet growers in a market that is already over-supplied. This entails placing the heavily subsidised beet farmers in sharp and unfair competition with ACP producers, especially small cane farmers. But this tumble in the price is also a disadvantage to European farmers in the lower end of overall scale of production. This concentration in the market is a benefit to manufacturers of beverages and sugar-related products who want 'cheap' sugar.

'At the outset, it needs to be remembered that the ACP Sugar Group with European

Ambassador Gomes, Secretary General Designate of the African, Caribbean and Pacific Group of States

Sugar Beet growers and manufacturers argued against the removal of quotas before 2020. A managed market is essential with policies that enable all stakeholders in the production and export sectors to realise a reasonable return.

'This opening-up by the premature removal of quotas as a market management tool, to benefit a few highly efficient, low cost commercial operators, is adverse to the 'development' aspect in which ACP sugar farming is undertaken. It's the livelihood of millions that depends on cane sugar cultivation and production that is being threatened. This is unfair.'[33]

5/ CONCLUSIONS AND RECOMMENDATIONS

There is no culinary or nutritional difference between white sugar that is produced from sugar cane grown by poor farmers in developing countries, and white sugar that is produced from beet grown in Europe. But if a bag of sugar carries the FAIRTRADE Mark, shoppers can be assured that smallholder farmers in developing countries, their families and their communities get a better deal. They receive extra money for community projects, such as health centres and schools, and to build their organisations, leading to better cohesion and productivity.

SHOPPERS

As shoppers walk the aisles of supermarkets, they have a choice – do they choose the Fairtrade sugar or non-Fairtrade? Do they want sugar that is a few pence cheaper per bag, at the cost of potentially pushing hundreds of thousands of people in ACP and LDC states into poverty, or will they stand by the sugar farmers who have been failed by politics and choose Fairtrade sugar – or ask their supermarket to stock it?

FAIRTRADE CAMPAIGNERS

We're calling on campaigners to contact their European Member of Parliament to make sure that poor sugar cane farmers get the support and funds they need to protect their livelihoods.

RETAILERS

Supermarkets also have a choice when making listing decisions on both white sugar and higher value brown sugars that can only be made from cane sugar. Will they support farmers in developing countries, whose livelihoods depend on it, or do they want to stock sugar that costs a penny or two less per bag, at the cost of pushing hundreds of thousands of people into poverty?

EUROPEAN UNION

The European Union must show leadership in response to the situation now faced by sugar cane farmers. This means ensuring prompt and well-judged support for those whose livelihoods are being damaged.

A new approach is needed. Much previous EU funding has not responded directly to the needs of sugar cane producing communities faced with losing their market, but has gone to other economic development priorities, or has not been spent at all. In some places the EU has continued to fund the expansion of sugar cane production, despite the threat to the industry.

The EU should convene and lead a new initiative that brings together government, business and civil society, to jointly fund and deliver programmes to support sugar cane farming communities through this difficult period.

Crucially, representatives of sugar cane farmers and their communities should be treated as equal partners, with a seat at the table, and be involved in response planning. Although the ones most affected by the change, they have had little say in decisions taken to date. Their views must be sought and prioritised.

Support should be tailored to the local context and may include options such as support to improve productivity, measures to deliver a fairer share of the revenue from sugar-cane sales to farmers themselves, new market development (for example, opening up new opportunities to sell to local and regional buyers) or help for farmers to diversify into alternative livelihoods.

As part of its own response, the EU should also urgently review its Multiannual Indicative Programmes (MIPs) and Annual Action Plans (AAPs) under the European Development Fund (EDF) and Development Cooperation Instrument (DCI), to ensure that it is offering adequate support to affected countries, especially Belize, Fiji, Guyana, Jamaica, Malawi, Mozambique, Swaziland, and Zambia.

The EU should also review whether other funding instruments that are targeted towards the rural agriculture sector could be used to support these farmers.

Current and future EU plans for investment in expansion of sugar cane farming should be approached with a high level of caution and tested rigorously for feasibility in view of the likely change in market price beyond 2017. The EU must ensure that it does not encourage farmers to switch into sugar farming, without also ensuring the viability of their market.

UK GOVERNMENT

The UK accounts for more than 25 percent of the EU's sugar cane imports from ACP and LDC countries,[34] so it should be a driving force in responding to the situation these farmers are facing.

- It should call on the European Commission to rapidly set up an initiative to support sugar cane farmers, as described above.
- The Department for International Development (DFID) should pledge financial support to such an initiative – as well as being useful in its own right, it will help to encourage funding and action by the EU and others.
- There should be a review of relevant DFID country and agricultural investment programmes, to ensure that the threat to sugar farmers' livelihoods is recognised and strategies for transitional support are implemented – in line with the approach described above.

> **IT DOES NOT MATTER WHERE THE PEOPLE ARE, HAVE THE PEOPLE'S INTEREST AT HEART AND EVERYTHING ELSE WILL FALL IN LINE.**
>
> *Paulette Richards, Sugar cane farmer and Secretary of the Trelawney and St James Cane Growers Association, Jamaica*

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"TO BRITISH CONSUMERS AND BUSINESSES OUR MESSAGE IS SIMPLY 'LET YOUR MONEY BE A CONTRIBUTION TO SOCIAL JUSTICE'. THAT THEY BE CONSCIOUS TO REALISE THAT IN THEIR PURCHASING OF ACP AND LDC PRODUCED SUGAR IS AN OPPORTUNITY TO EXERCISE A SENSE OF MORAL COMMITMENT IN THE SERVICE OF JUSTICE FOR PERSONS WANTING TO EARN THEIR LIVELIHOOD AND A REASONABLE RETURN FROM THEIR INVESTMENT, THAT GOES BEYOND JUST MAXIMISING COMMERCIAL VALUE IN A SYSTEM OF ECONOMIC RELATIONS THAT IS REPRODUCING INEQUALITY."

Ambassador Gomes
Secretary General Designate
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