Towards a Fair EU sugar regime

Fair Trade Proposals for a European sugar regime that contributes to sustainable development and poverty eradication in developing countries

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The European sugar market is under reform. The current system guarantees sugar producers and importers a high and stable price but it creates an annual surplus of more than five million tonnes of sugar which are dumped onto world markets. There is a need to reform the present regime because it contributes to world overproduction and it destroys market opportunities for millions of sugar producers in poor countries. However, this reform needs to be carried out very carefully since a drastic change without proper assessment of its impact on producers in poor countries would throw hundreds of thousands of people into poverty.

In July 2004, the European Commission published a first reform proposal and the new regime should enter into force in 2006. Despite some positive elements of the tabled proposal, particularly a reduction in EU sugar production, it does not address key problems associated with the world sugar production:

- The proposal does not put an end to dumping because the reduction in EU sugar production does not go far enough. Direct and indirect subsidies to sugar exports would still remain;
- By lowering the guaranteed price, sugar producers both in Europe and in importing countries will be severely affected;
- The proposal eliminates import quotas for the poorest countries (LDC). Some of these countries, e.g. Malawi, however, depend on their sugar exports to the EU and if the proposal would be implemented as suggested by the European Commission the effects would be to deprive the country of a potential $32m in foreign exchange earnings, equivalent to around half of its public expenditure on health services[1];
- Main beneficiaries of the current proposal would be the European sugar processing industry (e.g. Coca Cola, Nestlé, etc.)[2] and the most competitive and cost-effective sugar producing countries, such as Thailand and Brazil. Low cost sugar production, however, often takes place under unacceptable social and environmental conditions.

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[1] Watkins, K., *'Dumping on the World: How EU Sugar Policies Hurt Poor Countries'*, Oxfam Briefing Paper 61, Oxfam, Oxford, April 2004, pp. 35-38

[2] A reduction of the sugar price would reduce their production costs since sugar is one main ingredient into their products

A Fair EU sugar regime would, instead,

- Put sustainable development at its heart. It would ensure that workers in sugar production are not being exploited and that sugar cultivation does not destroy the environment, neither within the EU, nor in the importing countries;
- Ensure that small sugar producers, particularly in poor countries, are not being thrown into poverty;
- Completely stop dumping EU sugar onto world markets;
- Guarantee market access for the poorest countries (LDCs).

The following elements should be integrated into the reform:

- A thorough and independent assessment of the impact of the proposed reform on small and marginalised producers, particularly in the poorest countries (LDCs), through a proper consultation process with the affected parties;
- Guaranteed market access for the poorest countries (quotas) with a stable and foreseeable price that covers their cost of production and living;
- An assessment of the inclusion of sustainability criteria into the proposal which would offer a different import tariff to sugar production that complies with good environmental and social conditions;
- Design of assistance and compensation in collaboration with those developing countries and sugar producers which will be negatively affected by the proposal.

By integrating these proposals into the sugar reform the European Union could contribute to a fair and sustainable world sugar production and to a stable sugar price which enables sugar producers and workers a living wage and decent working conditions.

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An example of Fair Trade sugar: OTISA (Paraguay)

The Paraguay sugar mill “OTISA” processes organic cane sugar which is produced by three sugar cooperatives on small patches of land (0.5 to 5 hectares). OTISA workers receive a stable income of 10 to 20% above the minimum salary, dispose of social insurance and get paid holidays. OTISA also provides training and capacity building in organic farming for their suppliers.

The world market price for sugar has been varying between 150 and 250$ over the last few years. The sugar cooperatives working with OTISA receive not only a stable price which is determined by the cost of production but also 80$/ton sugar into a fund for joint projects on education, health care or technical investments.

Fair Trade sugar is being sold in Europe since 1980’s. Over the last years, labelled Fair Trade sugar sales increased dramatically, from 218 tonnes in 1997 to 1.423 tonnes in 2003[3]. Fair Trade guarantees southern sugar producers a stable income that covers their cost of production and living. It provides a long-term trading relationship and it offers the producers pre-financing and advanced payments if required.

Definition of Fair Trade according to the International Fair Trade Movement[4]

« Fair Trade is a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South.

Fair Trade organisations (backed by consumers) are actively engaged in supporting producers, awareness raising and in campaigning for changes in the rules and practices of conventional international trade »

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[3] Figures from FLO, Fairtrade Labelling Organisations, cf. www.fairtrade.net

[4] Definition of Fair Trade developed by the four international Fair Trade Associations: Fairtrade Labeling Organisations International (FLO-I), the International Federation for Alternative Trade (IFAT), the Network of European World Shops (NEWS!) and the European Fair Trade Association (EFTA)