



Foundation for agriculture and rural areas around the world

## FARM Briefings

# Sugar: towards a new market balance?

November 2005

### S U M M A R Y

**S**ugar is produced almost everywhere in the world, either from cane or beet. Consumption has risen slowly but has been less than production over the last decade, causing prices to be both low and volatile. Brazil is drawing ahead in terms of output growth and currently accounts for over a third of world exports.

Sugar markets are highly regulated at the world level with 80% of production under controlled price systems. The United States, the European Union and almost all other countries, including exporting countries, control prices and protect their domestic markets. Brazil is the only significant exception to this.

Special access quotas are nevertheless provided, notably for developing countries, by the USA and the EU. Because of this, although the European Union is the world's third largest exporter of sugar, it is also the second biggest largest importer after Russia. The ACP (Africa-Caribbean-Pacific) countries have preferential access to the EU market at EU prices for a quota of 1.6 million metric tonnes. The 'Everything but Arms' agreement will give the Least Developed Countries duty-free access to the European market as of 2009.

International pressure is being exercised to deregulate the market and has prompted the EU to propose a large-scale reform, with a cut in domestic prices. The ACP countries will be the first casualties of this development, as the benefit of their present preferential access, valued at around 400 million euros, would decrease considerably. The still-fragile economic development achieved by countries such as Mauritius or Swaziland could be wiped out, especially as aid proposals for restructuring fall short of requirements.

The sugar industry makes a large contribution to local economic development, employing a large workforce. Conditions are generally difficult but the employment opportunities and social benefits are often the only ones available. In certain countries, the sugar industry also creates trade outlets for small sugar growers.

Two major questions are now on the table:

- How will the sugar market develop? Will ethanol consumption have an impact on prices? What is the future of sugar cane and sugar beet production?
- How will the global and European regulatory framework evolve? What impact will deregulation measures have on world prices and on the restructuring of production? Who will be the winners and the losers?

Possible options for all producers include the search for higher productivity, a concern that is very present in the main sugar-producing areas of Europe and also in African producer countries since the issue of improving productivity of family farms is a priority for international aid. Producers in developing countries in particular should be allowed to implement reforms more gradually to give them more time to switch to more valuable substitution crops, provided that they are supported in their efforts by international solidarity. ■

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### 1 - The main features of world sugar production and the world market

#### Sugar: a staple produced everywhere at very volatile prices

Sugar is the fourth most important commodity by volume among the main categories of agricultural products but forms only 5%, with **140 million t** produced annually in comparison with more than 2,500 million t of cereals, tubers and oil and protein crops that form the basis for human foodstuffs (60% of the volume) and animal feeds (40%).

Today, world sugar consumption is some **22 kg per person per year (61 g per day)**. Some populations consume very large amounts (approximately 190 g per day in the United States (USA)<sup>1</sup>, 120 g in Brazil and in Europe), so large as to constitute a health

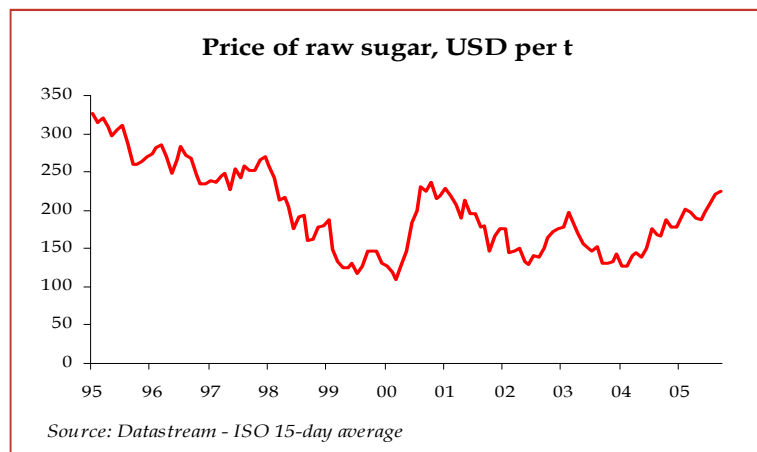
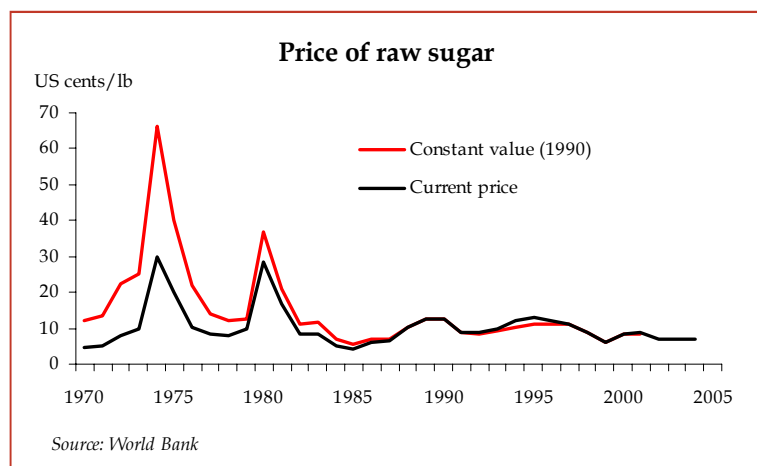
<sup>1</sup>- In this case, about half consists of sugar made from maize.

hazard; consumption by others is more modest but significant (30 to 60 g per day in sub-Saharan Africa and 50 g in India) and, finally, much smaller in certain Asian countries (25 g in China).

**Sugar can be produced in practically all countries**, either from sugar beet in a fairly broad range of latitudes (from north Africa to Scandinavia and the USA), or from sugar cane, which requires a hot, humid climate or irrigation and is grown from South Africa and Chile to north Africa and the southern United States. Today, cane forms approximately 75% of production and its share is growing rapidly.

**The sugar market has long been depressed:** world consumption has been smaller than production for 10 years, resulting in **stocks attaining 40% of present consumption**. There have been two major periods of speculation (with a mysterious relationship with the oil crises) towards 1973 and 1980. Since then, variations have been more limited but the average price since 1985 (USD 0.093 per lb, that is to say USD 205 per t) is much lower in constant currency than previously observed levels (*see graphs opposite*).

Over the last few years, the price of sugar had been lingering at a very low level. **The recent price recovery is linked to market balance** (with a decrease in production in India, whence a world deficit), **but it also owes much to the prospects opened up by the increase in oil prices**. Indeed, the main alternative outlet for cane sugar is ethyl alcohol; more than half of the cane crop in Brazil is used to make **biofuel**. The proportion had fallen when oil prices were low and the Brazilian government reduced its efforts after the Proalcool programmes in the 1980s (70% of the cane grown was used to make alcohol in 1990). The increase in sugar production in Brazil in recent years seems more related to arbitration at the expense of alcohol than to the increase in the areas under sugar cane, but a shift is expected.



### The world market is now dominated by Brazil

Sugar exports represent a third of world production overall, making sugar a fairly strongly delocalised commodity with regard to production and consumption (*Table 1*).

**Today, Brazil is dominant in world sugar production and even more so in exports.** The EU is the second largest producer and ex-

*2- These are EU gross exports; the EU imports the equivalent of half of its exports within the framework of preferential agreements and re-exports this amount. It is thus the third largest sugar importer in the world.*

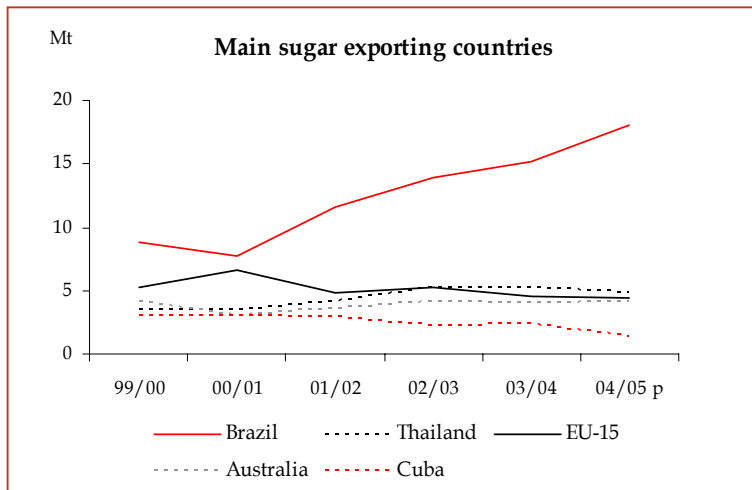
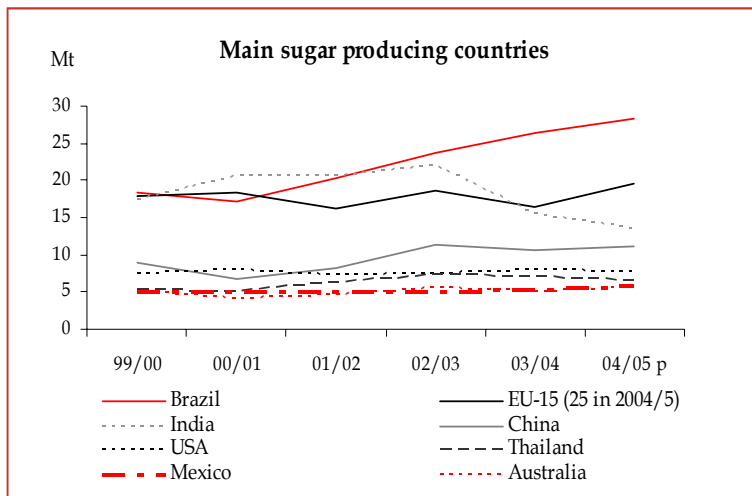
porter<sup>2</sup>. The USA is absent from the international sugar market. Sugar is of lesser importance, the country imports sugar and in addition half of sweet products are manufactured from maize. India and China export little or not at all but are producer countries and India is a major sugar consumer. Thailand is strongly present, together with Australia, Cuba, Mexico... Sub-Saharan Africa as a whole is just behind with some 6% of production and 4% of exports, led by South Africa (*see graphs on page 5*).

**The situation was completely different 10 years ago: Brazil shipped only 15% of exports**

**Table 1 — The world sugar market: statistics**

Millions of tonnes	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005 p*
<b>World Production</b>	<b>131</b>	<b>131</b>	<b>134</b>	<b>149</b>	<b>142</b>	<b>142</b>
Brazil	18.3	17.1	20.4	23.8	26.4	28.4
EU-15 (25 in 2004/5)	17.8	18.5	16.2	18.7	16.5	19.7
India	17.4	20.5	20.5	22.1	15.5	13.6
China	9.0	6.8	8.3	11.4	10.7	11.2
USA	7.6	8.0	7.2	7.6	8.0	7.7
Thailand	5.4	5.1	6.4	7.3	7.0	6.5
Mexico	5.0	5.2	5.2	5.2	5.3	5.7
Australia	5.0	4.2	4.7	5.5	5.0	5.5
<b>World Consumption</b>	<b>124</b>	<b>130</b>	<b>135</b>	<b>138</b>	<b>139</b>	<b>141</b>
India	17.0	17.8	19.8	20.0	19.6	19.2
EU-15 (25 in 2004/5)	14.3	14.1	14.1	14.4	14.4	17.7
China	8.9	8.7	9.4	11.0	11.6	12.2
Brazil	9.1	9.3	9.5	9.8	10.1	10.3
USA	9.1	9.3	9.0	9.0	9.0	9.0
<b>World Exports</b>	<b>37</b>	<b>38</b>	<b>41</b>	<b>46</b>	<b>46</b>	<b>46</b>
Brazil	8.8	7.7	11.6	14.0	15.2	18.1
Thailand	3.4	3.4	4.2	5.3	5.2	4.8
EU-15	5.3	6.6	4.8	5.3	4.6	4.4
Australia	4.1	3.1	3.6	4.1	4.0	4.2
Cuba	3.1	3.0	2.9	2.2	2.4	1.4
<b>World Imports</b>						
Russia				5.1	5.2	4.6
Indonesia				2.8	1.9	2.2
EU-15				2.2	2.3	2.1

Sources: Cyclope (production, consumption, exports); USDA; CGB 'La betterave en 2005' (imports); FO Licht, Commission, Firs; \* f: forecasts



and its growth occurred in parallel with decreased sales by Australia and Cuba and stability or decrease in many other countries. Europe has conserved roughly the same weight. **The rise of Brazil has been greatly enhanced by the fall in the real against the dollar** (a 66% drop between 1996 and 2002). The real has since regained 20% but exports have continued to increase (accounting for more than 60% of sugar production today).

### The sugar market is strongly regulated in most countries...

Sugar is possibly the most strictly regulated agricultural commodity in the world. According to the World Bank, 80% of world production and 60% of world exports are conducted at set or protected prices, in particular by means of domestic market protection; only

Brazil and Cuba (whose sugar industry is in difficulty today) use the world price. Australia is a special case: the price on the domestic market is attractive as it is protected by centralised import and export management by a single company, Queensland Sugar, which manages all port infrastructure and benefits from governmental status. Several countries combine support for sugar and strong exports: the EU, Thailand, South Africa, etc. Support for sugar is estimated at USD 2.7 thousand million in the EU, 1.3 in the USA and 0.7 in Turkey and Mexico<sup>3</sup>; this is essentially supported through prices and paid by consumers (Table 2, page 6).

### a) The European Union has hitherto displayed the third highest domestic price after Japan and Turkey<sup>4</sup>

The system is based essentially on:

- **control of imports**, which are heavily taxed;
- **a high guaranteed domestic price** of EUR 632 per tonne of white sugar in comparison with the world price at EUR 265 per t;
- **maintaining the balance by production quotas**: the main one (A) matches estimated consumption, with the next (B, 15% of the total quota) intended to cover requirements even in bad years. The volume of quotas A and B is 17.4 million t for EU-25. B quota sugar is for export and sold at the same price as on the European market; the price difference is funded by contributions paid by the sector.

However, **sugar beet growers produce more on average<sup>5</sup>, and the surplus** (an average of 18% of the EU-15 quota volume) is exported at the world price ('C' sugar). **Exports are not a charge for the public budget as they are self-financed by the sector (B quota) or performed at the world price ('C' sugar)**. The system, ensuring high profitability at production (sugar beet has been one of the most profitable crops in many cases), **is financed by consumers** and ensures supply security.

<sup>3</sup> Source: World Bank, *Sugar Policies: Opportunities for Change*, 2004.

<sup>4</sup> The reference price in Japan was USD 1 168 per t in 2001 (source: World Bank).

<sup>5</sup> The cane sugar quota in Europe (French overseas departments and territories) represents about 3% of the European quota and production is much lower.

**Table 2 — Protection regimes of the main sugar countries (excluding preferential access)**

	Purchase price cane-beet	Import control	Regulation storage	Domestic price (industrial)	Production quotas	Export aid	Other
<b>Brazil</b>	aid for cane production for ethyl alcohol; aid for cane in the Nordeste**	in principle, 35% dues in 2004		approx. USD 170 per t in 2001 (NB: retail price)	no		biofuel: partial tax exemption for ethyl alc.; obligatory proportion of alcohol (20 to 24%)
<b>EU</b>	set for beet quota (EUR 47.7 per t)	fixed dues of EUR 419 per t (white) + additional of approx. EUR 100 per t	yes	EUR 632 per t guaranteed (white) (more in fact)	yes	yes, but financed by the sector	
<b>USA</b>		dues of EUR 338 per t		USD 396 per t guaranteed (in fact, approx. USD 458 per t) (raw)	yes	no exports	
<b>China</b>	a reference price exists but the market has precedence	76% customs dues	yes	similar to that of the USA in 2001	no		
<b>India</b>	price set, 50% higher than the world price	60% customs dues	yes, large stocks	approx. double the world price	no		
<b>Thailand</b>		99% customs dues			yes, system inspired by that of the EU	yes, system inspired by that of the EU	fiscal aid and soft loans
<b>African sugar countries*</b>	no	dues of 55 to 100% or ensuring a minimum price		min. price approx. twice the world market price	no	no	

NB: world raw sugar price in 2005: average USD 203 per t or EUR 161 per t; white sugar: in principle USD 40 more per t (EUR 54 in the EU).

\* Sudan, Ethiopia, Tanzania, Mozambique, Zambia, Malawi, Kenya.

\*\* BRL 5 per t cane sugar in both cases; 1 BRL = 0.37 EUR in 2005.

**b) the United States provides both price support and domestic market protection**

Sugar benefits from both a guaranteed price of USD 396 per t raw sugar (by means of 'loan rates' that also serve as **price guarantees**) and above all a **customs tariff** of USD 338 per t that maintains the domestic price at USD 458 per t for raw sugar (the 2005 world price was USD 200 per t). Production is regulated by quotas.

**c) developing countries**

Practically all **producer countries**, with certain exceptions like Brazil and Cuba, **levy import dues that maintain the domestic price of sugar at some twice the world price**. There are not usually any quotas as these countries are either importers or competitive exporters or benefit from special access, making it unnecessary to limit production. It can be noted that exporting countries as competitive as

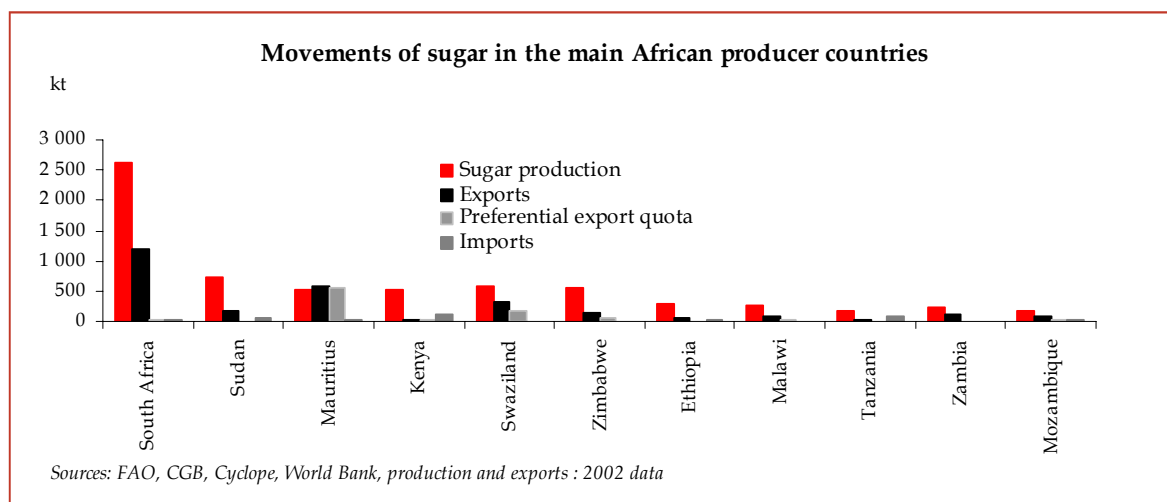
Thailand and South Africa and other African countries nonetheless protect their domestic markets, thus creating a rent for their sugar industry as is the case in Europe.

The sugar and alcohol market has been strongly deregulated in Brazil. Nevertheless, direct aid (relatively limited) remains for cane production, in particular for alcohol, and fiscal support for alcohol fuel.

**... but preferential access has been awarded by the European Union, the United States and by other free trade areas**

Preferential access has been awarded, in particular within the framework of initiatives aimed at promoting economic development via trade. **The USA awards low tariffs or zero-rating** to imports representing 17% of its





sugar production (1.4 million t in 2001) to countries including LDCs<sup>6</sup> (in Africa: Madagascar, Malawi, Mozambique for a total of 31,000 t) and many others (the main ones being, among LDCs, the Dominican Republic (185,000 t), Guatemala (50,000 t), Peru (43,000 t), and also Brazil (152,000 t), Australia (87,000 t), etc.). It can be seen that the volume of the quotas thus awarded has decreased over the years (from 2.1 million t in 1991 to 1.4 million t in 2001). **Mexico has access** by virtue of NAFTA; this is supervised for the moment but will be **totally free from 2008-2009** onwards. Mexico is not a large exporter today, but could become one on this occasion (even if it imports sweeteners for its own consumption) (*see graph*).

The EU awards privileged **market access for sugar by various measures: to the ACP<sup>7</sup> countries** following the Lomé agreements (that followed the United Kingdom's joining of the EEC, whence the large number of English-speaking countries), to India, to the Balkan countries and, since 2001 **to the LDCs. For the latter, this is part of the 'Everything but Arms'** agreement whose scope is very broad, as indicated in its name; however, some sensitive commodities like sugar have been the subject of only gradual opening measures (a gradual quota increase, limited to 100,000 t in 2005, and a gradual decrease in customs duties).

These countries thus benefit from entry quotas at the European domestic price for 1.6 million t, currently representing 8% of its production. But full opening is planned for the LDCs from 2009. **The scale of the advantage**

**thus awarded to all the ACP countries concerned can be estimated at EUR 400 million<sup>8</sup>** at present rates. The sugar imported is in fact refined and then **re-exported** at the world price, with the difference being covered by the European budget.

Different free trade agreements around the world concern sugar. In particular, four customs unions exist or are being set up in southern and East Africa and partially overlap<sup>9</sup>. Importing countries trying to develop their sectors are thus confronted now (Kenya) or will be in the coming years (Tanzania) with strongly exporting countries with low costs (Zambia, Malawi, Zimbabwe, etc.). This is added to problems of contraband, which is sometimes a serious handicap for national sectors. ■

<sup>6</sup> LDCs: least-developed countries, including many African countries (34 out of 49).

<sup>7</sup> ACP: African, Caribbean and Pacific states

<sup>8</sup> The entry price for a volume of 1.6 million t consisting essentially of ACP quotas is EUR 524 per t for raw sugar compared with the present world price of EUR 248 per t (CIF London); however, this figure is over-estimated as the calculation should be performed on the basis of the production price in each country rather than the world price: many ACP countries (starting with Mauritius) have fairly high production costs. A more accurate calculation for the 5 developing countries in Africa included in the list of ACP countries gives EUR 120 million. UNCTAD estimated that the advantage of the sugar quota was EUR 256 million in 1997.

<sup>9</sup> COMESA, SACU, SDAC and EAC, concerning some 30 countries in all, including 13 sugar producers.





**2 – The objectives and contrasted effects of the deregulation of the world market**
**Increased pressure with a view to deregulation**

Whether within the framework of the WTO, via pressure exerted by the World Bank on various countries or spontaneously by the European Commission and, depending on the economic situation, by the US government, efforts are being made to liberalise world trade and especially trade in agricultural products. **The main objectives of the rich countries are to make budget savings and find new markets for industrial goods and services**, while not forgetting to maintain their agriculture. **The poor countries are divided between a search for more outlets** (in the case of exporting countries), **food at low prices for urban populations and development of the agricultural sector**, together with other requirements such as that of obtaining international funding.

**The last WTO undertakings** (expressed in the 'July Agreement' published on 1 August 2004) did not include specific measures for sugar. They **planned the end of export aid** but for an unspecified date, a decrease in domestic support that interferes with the market (guaranteed prices for example) and 'substantial improvements in market access' (to be achieved by tariff cuts and also by the development of preferential access quotas). **These undertakings remained very vague** as the participants failed to come to an agreement and are further **softened by the notion of 'Special and Differential Treatment'** that can be claimed by developing countries to maintain agricultural protection systems and that of '**sensitive products**' that can be claimed by any country for certain goods if it considers that they are strategic for its agricultural economy. Both arrangements are reaffirmed in the 'July Agreement'.

The developed countries with protected regimes had not changed their organisation of sugar for a long time. On the occasion of the 2002 Farm Bill, the USA tended to strengthen support overall, and the EU system described above goes back to 1968; a simple gradual reduction of aided exports was planned after the WTO negotiations.

However, **Brazil, Australia and Thailand—**

members of the Cairns Group<sup>10</sup>—**lodged a complaint with the WTO against the EU, attacking both its exports** at the world price (because they receive indirect support from the rest of the regime) **and the preferential quotas** mentioned above, because Europe re-exports an equivalent volume at the world price, which is lower than the purchase price. The complaint thus targets practices that are not the subject of any WTO agricultural agreement. **The three plaintiffs won**, with all EU exports being considered as contrary to the rules, including the re-export of preferential quota sugar, and the decision was confirmed after appeal in April 2005.

This, and also perhaps above all the fear of being incapable of ensuring market balance from 2009 onwards with the arrival of very large volumes from the LDCs<sup>11</sup>, **led the EU to draft a fairly drastic reform** that includes a 40% decrease in domestic prices and a reduction in the volume produced, obtained by the purchase and cancelling of part of the quotas by means of a restructuring fund, the latter being funded by contributions for the remaining volumes. The least competitive sugar countries (southern Europe and Scandinavia) are expected to cease production, representing as much as 5 million t (a quarter of present production). **European producers should receive partial compensation. In contrast, the question is raised for the ACP countries and LDCs that benefit now or in the future from import quotas at the present price, which is very profitable for them.**

This reform is the first proposed since the beginning of the common market organisation of sugar and consists of the following measures:

- the maintaining of customs duties and preferential import agreements;
- a gradual 33% decrease in the price of sugar for the horizon 2008 and 43% of that of sugar

<sup>10</sup>- *The Cairns Group of Fair Traders in Agriculture presses for free trade in agriculture at the WTO: the 17 countries include the large sugar exporters Brazil, Australia, Thailand, Colombia, South Africa and Guatemala. New Zealand, Paraguay, Argentina, Uruguay, Bolivia, Chile, the Philippines, Costa Rica, Indonesia, Malaysia and Canada are members for other reasons.*

<sup>11</sup>- *And also fears that the sugar is not truly from LDCs with the trafficking that could appear when the notion of quota has disappeared.*

beet (in France), with the elimination of the contributions financing the export of the B quota; 60% of the loss of income by beet growers is compensated by direct aid from the European budget;

- merging of quotas A and B; a premium tapering over a three-year period (EUR 730 per t in the first year) awarded when quotas are cancelled (an overall decrease of 5 to 6 million t is expected); the premium is funded by a levy on the sector (integrated in the decrease in the price of sugar). Conversely, part of the C sugar volume (limited to 1 million t for the EU) could be converted into a quota for EUR 730 per t;
- export refunds are limited by the agreements of the WTO Doha cycle (and will disappear rapidly); over quota sugar exports are forbidden (levy on over quota production).

### Simulations of the deregulation of the world market give contrasting results according to the source

Different simulations of the possible consequences of the deregulation of the world sugar market have been performed.

The World Bank<sup>12</sup> mentions several simulations (performed around 2000) of **full deregulation** that lead to **an increase in world prices of some 40%**. The potential beneficiaries are the low-cost countries Brazil (centre-south), Australia, Thailand and certain African countries (the Sudan).

After the reform of the organisation of the European market, the European domestic price would thus be at roughly the world price level given by the simulations should sugar be totally deregulated; the 5 million t exported by the EU would disappear and this is roughly the amount of the chronic surplus on the world market in recent years. A similar trend is also expected in the USA. However, the possible effect on world prices depends to a considerable extent on production in Brazil, where growth has recently been 8 million t in only four years.

<sup>12</sup>- *Sugar Policies: Opportunities for Change*, D. Mitchell 2004, a working document with a marked orientation towards liberalization.

A study by the CEPII<sup>13</sup> makes a **global simulation of the effects of the Doha cycle**, (for want of any precise measure planned, it is based on hypotheses put forward in 2003), following several other analyses that concluded that the effects would be beneficial for developing countries. This new approach considers that the other studies based on computable models of general equilibrium do not take sufficient account of preferential agreements and do not make a distinction between the different types of developing country (exporters or importers).

The results of the work by CEPII reveal a **limited general benefit that is mainly to the advantage of developed economies (but not their agriculture**, especially in Europe where agricultural incomes would fall), **a strong increase in agricultural trade for the Cairns Group and little perceptible benefit for many developing countries** (especially in sub-Saharan Africa). **The price of sugar would increase by only 3%** (this would also be the general average price variation). The hypotheses that emerged from the Doha cycle correspond to limited deregulation but the decrease in tariffs for sugar envisaged is only 21% globally (and even 77% in the EU).

The question was discussed at a **recent conference**<sup>14</sup>. According to the work presented, total trade deregulation would lead to **a world-wide gain of USD 287 thousand million, with 85 thousand million for the developing countries but an increase of only 3% in agricultural income in the developing countries and a 19% decrease in the developed countries** (26% in the EU).

**This work thus brings out the variance between those who consider that deregulation must be total in order to be effective and those who stress the importance of knowing who benefits from this deregulation. It is not**

<sup>13</sup>- *Centre d'études prospectives et d'informations internationales: 'Multilateral agricultural trade liberalization: the contrasting fortunes of developing countries in the Doha Round'*, by A. Bouët, J.C. Bureau, Y. Decreux and S. Jean, 11/2004.

<sup>14</sup>- *IFRI forum on Agriculture and Globalization, October 2005. Work by B.H. de Frahan, Catholic University of Leuven, reported in Agra Presse, 17/10/2005.*

necessarily of much benefit to agriculture, including that in the developing countries and even less in the least developed countries.

**The consequences of a sugar reform in the EU is not in the interest of developing countries that benefit from preferential access**

The European sugar reform will lead to a fall in the price of sugar in the EU countries. One might wonder to what degree this benefits consumers, as excessive consumption of sugar causes public health problems. However, the prospect of an increase in consumption should be seen in perspective as three-quarters of sugar is consumed in processed products (beverages and confectionery in particular)<sup>15</sup>. It is not certain that industries will truly pass on the fall in the price of raw material, especially for beverages.

For countries that have import quotas now or in the future, the prospect has serious economic consequences given the value of the advantage. This has increased in recent years with the rise of the euro against the dollar, as the proceeds of the sale of sugar are then partially converted into dollars (see Table 3).

According to the proposed EU reform, the new price of sugar in 2009 should be EUR 303 per t for raw sugar and EUR 385 per t for white sugar (USD 363 per t and USD 462 per t respectively). **Brazil, of course, and the low-cost ACP states and LDCs will continue to be competitive** (Sudan, Mozambique, Malawi, Zambia, Swaziland and Ethiopia), **Mauritius will not longer be competi-**

<sup>15</sup> A known example is Coca-Cola, which is more expensive in Brazil than in France even though the main ingredient is sugar.

**Table 3 — Production costs in Brazil and in the major African producer countries**

	According to EU simulation*		According to Cyclope**	According to CGB***
	USD per t white	USD per t raw	USD per t	USD per t
	Delivered to Europe	Delivered to Europe	Factory gate, white or raw	Factory gate, excluding financial and distribution costs, white or raw
<b>South Africa</b>				220
<b>Sudan</b>	285 to 425	200 to 300	300	
<b>Mauritius</b>	600 to 710	410 to 490	396	
<b>Kenya</b>			350 to 380	
<b>Swaziland</b>	450 to 510	310 to 350	264	247
<b>Zimbabwe</b>	285 to 425	200 to 300		
<b>Ethiopia</b>	285 to 425	200 to 300		
<b>Malawi</b>	450 to 510	310 to 350	220	220
<b>Tanzania</b>	600 to 710	430 to 490	300	275
<b>Zambia</b>	285 to 425	200 to 300		200
<b>Mozambique</b>	285 to 425	200 to 300	300	297
<b>Brazil</b>	285 to 425	200 to 300	200 (160 for the best performers)	105 to 150
<b>France</b>	450 to 480	310 to 330		
<b>Germany, Austria, Poland, UK, Sweden</b>	480 to 510	330 to 350		
<b>Other EU</b>	540 or more	370 or more		

\* Impact study of the project for the reform of the sugar sector, 2003; USD 1.14 to one EUR (2003).  
 \*\* Sugar and developing countries, 2004.  
 \*\*\* Sugar sector (several geographic zones, 2003 and 2004), Confédération générale des planteurs de betteraves.

tive for example and Tanzania is the subject of a difference of opinion. Numerous Caribbean ACP countries (the 'sugar islands') would lose their possibility of export to Europe as costs are high.

It should be emphasised nevertheless how much **production cost is a relative notion**. It depends first of all on exchange rates (local currency, USD, EUR) and the way in which the means of production are evaluated. For example, sugar refineries in the Sudan withdraw massive amounts of water from the Nile and this does not seem to be paid for financially for the moment.

Europe plans to award aid to the ACP countries to help them adapt to the marked change to be effected in four or five years. The initial proposal includes **EUR 40 million in aid for the first year, followed by other unspecified amounts**. The ACP countries expressed their disagreement after an interministerial meeting with the EU in September 2005, pointing out that according to the United Kingdom EUR 100 million will be necessary in the first year and then EUR 500 a year in subsequent years. The advantage awarded to the ACP countries up to now, evaluated succinctly above at EUR 400 million, would be reduced (for a raw sugar entry price of EUR 303 per t) to approximately EUR 90 million; the benefit calculated above for the five African countries in the ACP category would be reduced from EUR 120 million to almost nothing. Indeed, **the economic impact would be considerable** in these countries, headed by Mauritius and Swaziland.

The prejudice is only a virtual one **for the LDCs** as they have not yet had any substantial benefits (effective quotas of 0.1 million t), and **nothing is really planned by the EU**. The LDC pressure group (LDC Sugar Group<sup>16</sup>) is trying to influence decisions, arguing that their sugar farms are development models for rural communities and create jobs, improve health care and education, lead to progress in infrastructure and act as a catalyst for progress and growth in other fields. **They admit that their sugar industry needs restructuring but argue that the decrease planned goes beyond the undertakings that will probably be required for the WTO and propose a limit to export volumes** on condition that the decrease in price is only 15 to 20% and attained more gradually.

Supported by external studies, this proposal stresses that European production, like that of the LDCs, could continue to be spread over an extended range of countries while being controlled as regards volume. In such a pattern, **the sugar sectors of the most competitive countries would see the survival of broader competition, but the advantage of a higher price could make up for the loss of quantity**. The system would continue to be funded by European consumers (or at least the benefit would be decreased for the processed sugar product industry).■

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16- LDC: least-developed countries.



**3 – Impacts of the sugar industry on the economy, employment and the environment****The role of sugar production in the economies of developing countries**

Sugar plays an essential role in comparatively few national economies, concerning small countries such as **Cuba, Fiji, Mauritius, Swaziland and various small Caribbean islands or countries, whose economies are entirely dependent on sugar.** Their sugar economy results from previous special relations with the USSR or with Europe and the USA. Sugar forms only **15 to 20% of exports** from Mauritius and Swaziland. This is far from the prevailing situation with regard to cotton in West Africa, for example. However, it is spectacular to see that countries of such limited size as Mauritius and Swaziland (with populations of 1.2 and 1 million respectively and limited land area) have succeeded in becoming the 9th world exporter (Mauritius) and among the first 15 (Swaziland).

**Sugar forms a maximum of 5 to 6% of exports for the other African countries.** This does not mean that sugar is a secondary sector. Even in countries that are not among the major producers, like those in West Africa, the sugar sector (often a single enterprise) may be one of the leading employers in the country.

**Some countries that benefit from preferential quotas are nevertheless unable to produce sufficient sugar to fill them.** These include Kenya and Tanzania. They have sugar deficits partly for reasons of the poor profitability of their sugar sectors, at least in the recent past.

In addition to the exporters already discussed, **many African countries, especially in West Africa, produce small quantities of sugar and display overall deficits.** The total volume produced in sub-Saharan Africa—except for the exporting countries already mentioned together with Madagascar and Uganda which are intermediate cases—is some 600,000 t, with consumption of about 3 million t. The negative balance is on the same scale as the surplus produced by the exporting countries in southern and East Africa, or perhaps a little larger. The main producer countries in this category are Côte d'Ivoire and Cameroon.

The sugar companies launched in Côte d'Ivoire, Senegal and Burkina Faso in the 1970s with foreign capital have since experienced difficulties, but have remained large at the scale of the countries concerned. In fact, many countries in this situation do not possess the water resources required for large-scale growing of sugar cane. However, it can be noted that certain heavily populated sugar-consumer countries like Nigeria and Congo Kinshasa have very limited production.

**Few countries seem to have decided to apply a specific tax to sugar exports** in order to contribute to public funds (a common practice for other exported commodities such as cotton, cocoa, etc., leading to both scope for the general development of the country and risks of misappropriation). This is the case of **Mauritius<sup>17</sup> and Swaziland** (together with Guyana). These countries have indeed reached a certain level of overall development thanks to sugar, which has played a major role. In the other countries, sugar nevertheless makes an overall contribution to the economy (non-specific taxes, business taxes and VAT and the incomes of all private stakeholders).

The sugar industry basically consists of farming (cultivation of sugar cane or beet), crushing and sugar production (and possibly refining in the case of cane). However, **diversification is possible either in the industrial techniques used or in the products themselves.**

**Energy production** can thus be limited to the use of bagasse (the fibrous residue of canes after extraction of sugar) to cover the steam production requirements of sugar factories (this is one of the advantages of cane over beet as the latter requires supplementary energy to dry the pulp after sugar extraction). However, **cogeneration can be used to generate electricity while recovering steam as well.** But this requires **substantial investment.** Mauritius has longstanding experience in this and plans fresh investment of about EUR 140 million in a generating plant and the

<sup>17</sup> Until 1997-1998 when taxation was discarded (source: Cyclope, *Sucre et pays en voie de développement*, 2004).

electricity produced will remain expensive. Other countries – such as Tanzania – use the technique, but **in many cases it is an unexploited possibility** (for example, the Illovo factory in Malawi has to purchase the electricity required for irrigation).

**Diversifying production can involve special sugars and brands.** This is the policy used by the sugar groups in the developed countries but it concerns only a small potential volume. It is nevertheless part of the action plan envisaged by Mauritius and by different sugar companies (especially Illovo in southern Africa).

There are then **beverage alcohol** (rum, with limited potential) and above **all ethyl alcohol** for use as fuel. Brazil is of course a leader in this field (with 36% of world production in 2004 and 45% of world production of ethyl alcohol for biofuel), together with the USA with 33%<sup>18</sup>. However, biofuel programmes are being launched in Europe and especially in several Asian countries, in particular in India and Thailand and in China, where distilleries are already being built. Mauritius again has projects in this field and in particular counts on calling on Brazilian expertise. Nevertheless, **the problem of competitiveness also arises for ethyl alcohol and Brazil will increase its search for export markets** in the future. Other sugar companies in Africa have also started operations in this field.

Finally, chemical processing gives further outlets, as in the case of Illovo with furfural (used as fertiliser) and its derivatives.

### The sugar companies sometimes show large profits and are major players

The functioning of the sugar sectors in the major African producer countries already mentioned and in Brazil, the reference in sugar, is examined in more detail below.

**Sugar is always a heavy industry as a result of the investment required** to set up

processing factories and plantations. In Mozambique for example, the cost of a sugar production unit (a 150,000 t sugar factory and 11,500 ha of plantations) is estimated to be USD 100 million<sup>19</sup> (65 million for the factory and 35 million for land preparation), that is to say USD 666 per t of the sugar produced annually; this is three times the present price of raw sugar and 2.2 times the price of white sugar delivered to London.

The high relative cost of land preparation is explained by the fact **that sugar cane must be irrigated** in numerous African countries and this requires investment. Tanzania and South Africa are exceptions as irrigation is limited; their per hectare sugar yields are a little smaller (8 to 10 t per ha in contrast with 11 to 13 t in the other countries). It is noted that irrigation is not usually practiced in Brazil and this helps to reduce costs (the yield is 10 t per ha in the main production region, São Paulo).

Examination of the main sugar companies in Brazil and Africa shows that concentration is small in Brazil, with most companies running only one or two factories (there are 300 factories in all) apart from Cosan, the leader, and the Copersucar group that handles marketing and provides collective services for some 30 members. In contrast, a few companies in Africa play a dominant role. This is the case of Illovo in particular, which handles all or a large proportion of production in six countries, with factories that are often large.

The groups **established in Mauritius** that have operated in West and central Africa (Burkina Faso, Côte d'Ivoire, Central African Republic and Gabon) are not included in [Table 4, page 15](#) – Aga Khan and Castel – – and neither is the group that has acquired a factory in Mozambique with other investors (WEAL).

**The profitability of the major groups is limited** with regard to the consolidated results: 1 to 4% net margin for Cosan and Copersucar, the latter being more of an intermediary, and 3 to 4% for Illovo. However, examina-

<sup>18</sup>- Source: CGB, FO Licht.

<sup>19</sup>- Source: CGB, *Le secteur sucre dans les PMA*.

tion of **companies working only in sugar** (and producing ethyl alcohol in Brazil) **reveals a very high rate of profitability**. In 2004 and

2005, years in which prices have not been high, the net margin has been 8 to 14% on average for a batch of Brazilian companies, 10 to

**Table 4 – The major sugar companies in Europe, Brazil and Africa**

	Nationality	Countries	Capital	Tonnage of sugar produced (thousands)	Number of factories	Year	Sales USD M	Operating margin	Net income/sales	NT per t sugar USD M
<b>Europe (tonnage quota only) EUR M</b>										
<b>Südzucker</b>	Germany		cooperative	3 593		2 003	1 310			
<b>Nordzucker</b>	Germany		cooperative	1 500			1 172			
<b>British Sugar</b>	United Kingdom		Associated British Foods	1 253						
<b>Téréos</b>	France	France, Brazil	cooperative	1 104						
<b>Brazil (300 in the whole country) EBITDA*/SALES</b>										
<b>Cosan</b>	Brazil	Brazil	family, soon listed	2 238	12	2 004	547	22%	2%	5
						2 005	674	18%	1%	
<b>Copersucar</b>	Brazil	Brazil	cooperative of planters and sugar factories	3 800	30	2 004	1 138	17%	0%	0
						2 005	1 426	20%	0%	
<b>Others</b>			sample of 7 companies			2 004	123	26%	14%	
						2 005	148	19%	8%	
<b>Africa EBIT*/CA</b>										
<b>Illovo</b>	South Africa		listed	1 900		2 004	897	11%	4%	18
						2 005	826	8%	3%	
		South Africa		884	7	2 004	458	4%		
						2 005	396	2%		
- Illovo Malawi		Malawi	Illovo 76%, public	260	2	2 004	101	25%	13%	51
						2 005	103	19%	10%	
- Nakambala		Zambia	Illovo 90%, public	233	1	2 004	91	32%	24%	94
						2 005	102	25%	18%	
- Ubombo		Swaziland	Illovo 60%	213	1	2 004	81	13%		
						2 005	83	4%		
- Kilombero		Tanzania	Illovo 55%	127	2	2 004	61	28%		
						2 005	58	19%		
- Maragra		Mozambique	Illovo 76%, public	65	1	2 004	20	<0		
						2 005	25	<1		
<b>Tongaat</b>	South Africa					2 004	979		4%	
		South Africa			5					
- Xinavane		Mozambique		52	1					
- Mafambisse		Mozambique		45	1					
<b>EBIT*/SALES</b>										
<b>Kenana</b>	Sudan		35% state, +Arab capital+public	400	1	2002/2003	198	21%	11%	54
<b>Wonji shoa</b>	Ethiopia		State	73						
<b>Mumias</b>	Kenya		listed	The company seems to have suspended communication after a number of difficulties in recent years, but share prices have risen for several months.						

Sources: annual reports, CGB, press data, companies.  
 EBITDA: Earnings before interest, taxes, depreciation and amortization.  
 EBIT: Earnings before interest and taxes.



24% for the subsidiaries of Illovo in Malawi and Zambia. The 2002/2003 figure was 11% for Kenana in the Sudan. These results per tonne of sugar give a substantial figure when calculation is possible (it is noted that the rates of the currencies concerned have improved against the dollar since 2002).

While remaining an example, **the distribution of value-added for Illovo's two main foreign subsidiaries**, that are also the two most profitable units (72% of the groups operating results) shows the considerable importance of labour, taxes and also net income, a large proportion of which is paid out and thus leaves the country. In the case of Zambia, this exceeds labour costs<sup>20</sup> (see graphs below).

In contrast, **other companies** like the Illovo subsidiary in Swaziland **have not reached this stage of profitability** (no reasons known). It is

the case of the Mozambique companies, which are in a recovery phase (the restarting of the sugar industry—with substantial investments—after the civil war only goes back to the end of the 1990s) and Mumias Sugar in Kenya which, although listed, has ceased communication and is in difficulty. Illovo in South Africa itself has more limited profitability.

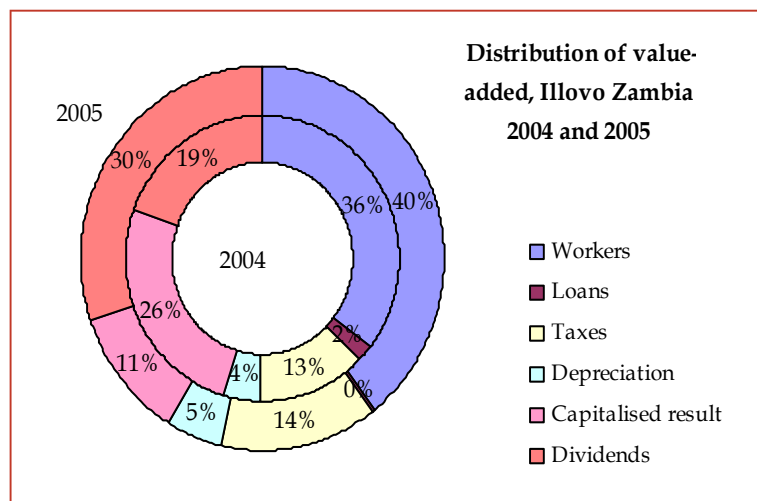
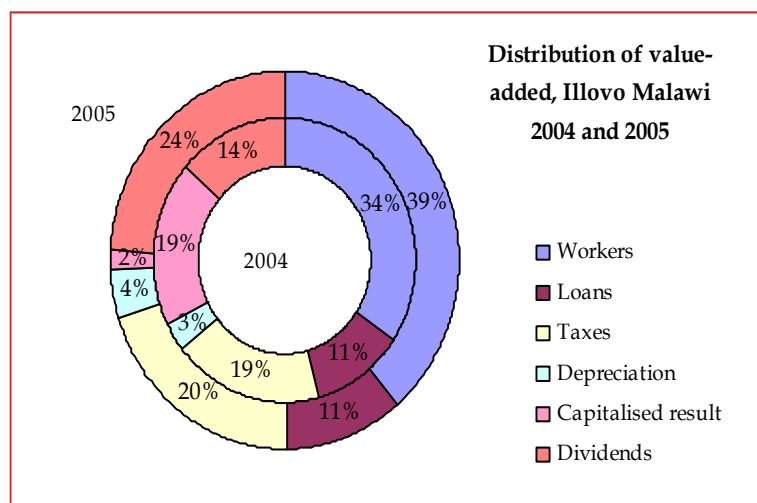
**Sugar in the agrarian economy: cane production is often handled by the industry itself but some countries are maintaining or developing family production**

**In the countries with a very long history of sugar production**, such as Mauritius, many Caribbean islands and other ACP countries, this has resulted in **the division of land among a large number of small farmers**.

**Large estates are dominant in Brazil**, first those of the companies themselves (70% of cane supplies) and then those of the large independent landowners. In São Paulo, where 60% of Brazilian sugar is grown, **growers with less than 60 ha of cane account for only about 6% of the area under sugar**. This nonetheless concerns approximately 10,000 holdings. Most of the São Paulo planters belong to Orplana, a federation with 13,000 members of very varied sizes. The country has a total of 60,000 independent plantations.

**In the major producer countries in Africa, and in particular in LDCs, sugar is often produced by large industrial holdings**, most of which are linked to factories. The sugar industry was often launched or re-launched in the 1970s after the colonial period (stimulated by periods of rocketing sugar prices at the time). The companies were often nationalised and subsequently privatised; this is the case for one of the companies in the Sudan, and in Mozambique, etc. In these countries, the sugar complexes form industrial cropping enclaves set in a fabric of land that is not densely occupied, especially as the crop is completely dependent on irrigation, as in the Sudan.

<sup>20</sup> Source: annual company reports; in addition to dividends, the companies pay commissions to their mother company (that must perform certain collective functions); these commissions are modest.



However, family production does exist in parallel in some sugar-producing countries and may sometimes produce most of the crop. The presence of small planters in Tanzania and Kenya has led the sugar industries to call on them for a good proportion of their cane supplies. In other cases, as in Swaziland, there is political determination to set up a small planter sector. It is noted that small units dominate in South Africa, which is by far the leading producer and exporter in the region (see Table 5).

**Working in sugar cane plantations: both a substantial source of jobs, and difficult conditions**

The sugar cane sector continues to employ a large labour force, especially during the harvest, which is still little mechanised.

Working conditions in sugar cane are generally no longer those of slavery, which marked the history of sugar, especially in the

West Indies and in Latin America. For example, the labour laws in Brazil are structured and lay down the precise status of paid labour, which seems to be declared officially in general (but the nature of this information makes it difficult to check this). Some social advantages are added to this although their frequency cannot be measured. Trade union activity is strong but not considered to be truly effective. The sugar sector in Brazil employs more than a million people.

The companies running the sugar complexes in Africa do not pay social contributions but respond directly to the requirements of the labour force, providing accommodation, water and electricity and the services usually provided by the public authorities: medical care<sup>21</sup> and schooling. These services are estimated to represent USD 66 per t of sugar in Swaziland, which seems a large amount. Available data on wages and numbers of workers give a wages cost per tonne of sugar of some USD 20 to 60. Total payroll

**Table 5 — Agricultural structures for sugar cane production, Brazil and the main African producers**

	Proportion of independent growers	Of which small planters	Per-ha sugar yields: factories/planters	Monthly wage of cane cutter (2003)	Fringe benefits for farm workers	Price of sugar cane (2003)
<b>Brazil</b> Sao Paulo	30%	less than 60 ha: 21% by vol. , 77% in number		USD 200 to 260 per month	in principle, declaration and social contributions + certain fringe benefits	USD 9.1 per t
<b>Sudan</b> <b>Ethiopia</b> <b>Mozambique</b> <b>Malawi</b>	0 to 13%	Planters are small in the Sudan and Malawi		USD 60 to 100 per month (5 to 9 t per day, 6 days a week)	hardly any social contributions; fringe benefits: housing, water, electricity, medical care, schooling	USD 22 to 25 per t (Sudan), USD 25 per t (Malawi)
<b>Zambia</b>	30%	162 small planters only				USD 23 per t
<b>Tanzania</b>	41% (estimate)	almost all are small	6.2 t sugar per ha for planters; 9,8 for the factory	USD 50 per month		USD 24 per t
<b>Swaziland</b>	44%	98% of planters in number, 26% in area	yields reported to be as good for small planters	USD 135 per month	see above; estimated to be USD 66 per tonne of sugar	USD 23 per t
<b>Kenya</b>	very high	all small				
<b>Mauritius</b>	49%	all smaller than 50 ha (av. 1.2 ha)	smaller for planters			
<b>South Africa</b>	89%	22% of planters	33t cane per ha for small planters; 57 for the others			USD 22 per t

Sources: Cyclope, CGB.

costs per tonne of sugar in Malawi and Zambia are USD 60 and 70 respectively.

Wages are low (USD 60 to 130 per month in Africa and USD 200 to 260 in Brazil - source: CGB), but it is **difficult to evaluate** their purchasing power for work recognised as being very hard in the case of cane harvesting. Harvesting is a **seasonal job** for most workers (seasonal farm workers are usually two or three times as numerous as permanent workers at the companies). They are often migrant workers, **whence precariousness and risk of mistreatment by employers**.

**The living conditions of cane cutters have resulted in the mobilisation of many NGOs<sup>22</sup>** at the international level, relying on the action of local unions and international organisations<sup>23</sup>. Governments are also mobilised, as in Brazil with collaboration with ILO on the question of forced labour.

It is difficult to compare employment conditions in the industrial plantations in Brazil and in African countries. **Overall, it is difficult work but somewhat better paid than the other jobs available to rural labour. This makes the sector important, whence the fears of the possibility of mechanisation** which is currently very limited in sugar plantations everywhere (only 20% in Brazil<sup>24</sup>). However, a Brazilian law has scheduled **the gradual forbidding of the burning of cane** because of the serious nuisance and pollution resulting from the practice. But no burning before manual cutting makes the latter much more difficult, with yields falling by half. **Mechanisation would be required**, causing a social crisis. Application of the law thus remains uncertain.

<sup>21</sup>- In particular, Illovo for example has a programme to fight AIDS based on prevention and testing; a programme to help infected workers has been set up but it does not include the supply of anti-retroviruses. A malaria control programme has also been set up.

<sup>22</sup>- WWF (Better Sugar Cane Initiative), Collectif pour l'Éthique dans le sucre (France), Ethos Institute (Brazil), FIAN (Food Initiative and Action Network), Africa-Europe Faith and Justice Network (Belgium), etc.

## Planters experience conditions that are probably better but that remain uncertain

In the countries where **small independent planters** play an important role, **there is frequent mention of their poorer technical performance and higher production cost in comparison with industrial plantations**. This is true in the old sugar countries (Mauritius, etc.). The situation also seems to exist in African producer countries. Part of the problems in the sector in Kenya may be linked with this<sup>25</sup> and small planters' yields in South Africa are 37% lower than average according to UNCTAD. However, the same source finds that performances are equivalent in other cases such as Swaziland.

The case of **Tanzania** and the Kilombero company (Illovo group) is particularly interesting. Illovo bought the company in about 1998<sup>26</sup> at a time when its sugar production was small and decreasing. Since then, after serious industrial action in 2000, production increased from 29,000 t to 135,000 t and Illovo **has to call increasingly on small local planters**, who supply nearly half of the cane today, and the proportion is increasing. The company thus **launched a development project aimed at removing the obstacles** to development of volume at low cost—**lack of funding** for planters (the main obstacle mentioned in many cases), lack of infrastructure (service SMEs and material infrastructure and also health and social services), **lack of skills** and technology and fragmentation of production.

The company has involved many international donors (the World Bank's International Finance Corporation, the US government's

<sup>23</sup>- For example: FAO - ILO - IUF: *Agricultural Workers and their Contribution to Sustainable Agriculture and Rural Development*, 10/2005.

<sup>24</sup>- The Sudan seems to be the country in which cane production is most mechanised (after the USA and Australia) as Kenana, which produces half of the sugar in the country, reports that 62% of harvesting is mechanised.

<sup>25</sup>- The Mumias company was closed for more than two weeks in 2003 following a transport strike and then farmers refused to accept a decrease in the price of cane from USD 25 to 22 per t.

<sup>26</sup>- With ED&F Man (20%), and the Tanzanian government keeping 25%.

Foundation for Development in Africa, the Swiss Agency for Development and Cooperation, etc.) and **the number of producers and also yields have increased rapidly**. According to information provided by the group, Kilombero now displays high profitability. However, there remains a serious disagreement with local food-industries which are against the domestic price level set to enhance the growth of national production. They request a price of USD 400 per t against a current USD 480 per t.

**The strengthening of small individual production is recognised as being a factor in local development and several countries are working along these lines**, sometimes on a very small scale as in Mozambique and Zambia (with projects involving 65 and 161 small farms respectively), but sometimes on a much larger basis, as in South Africa where Illovo (in relation with agrarian reform) has been led to transfer some of its farms to small black farmers or to black empowerment groups; this has now reached half of the total area. Recent transfers have in fact resulted in supply problems. Smallholder development programmes are also running in Swaziland.

Although domestic sugar markets are regulated in numerous countries, **sugar planters do not benefit from similar organisation to that of European sugar beet producers**, for whom the price is fixed and laid down by the common market regime. In **Brazil**—in São Paulo at least—the price of cane is controlled by an agreement between industrialists and planters and depends on the index of sugar and a rate totally linked to sugar prices. The resulting price was some **USD 9 per t of cane in 2003**. In 2005, Brazilian planters complained that the prices fixed in this way had become too low for them to be able to cover their costs<sup>27</sup>.

**The price paid to planters for cane is much higher in the African countries**, and high in absolute terms at some **USD 22 to 25 per t**<sup>28</sup>. The wages paid to cane cutters (excluding benefits) is reported to be some EUR 0.4 to 0.6 per t of cane<sup>29</sup>, and this cost is reputed to correspond to about 20% of the total cost of the cane. Under these conditions, **planters would seem to have a clear advantage over the workers**.

Independent planters, even with small holdings and all the more so for the largest, employ seasonal labour. The conditions of employment frequently lack the guarantees provided by the integrated sugar complexes.

### **Sugar cane and environmental problems**

**Sugar cane is a very demanding crop, especially with regard to water**, and water resources, especially in Africa, form the limiting factor considered to be the main obstacle to its development. This results in **possible water use conflicts** (this is also true to a lesser degree for sugar beet when it is grown in countries with low rainfall like Spain and Portugal).

Sugar cane is often grown in **monoculture** and remains for 6 to 8 years (or more in some countries) after planting. It is always **grown in the same fields**. This can cause soil degradation especially with poorly managed irrigation (salinisation). The yields observed have generally increased so far thanks to genetic improvement<sup>30</sup> and the perfecting of cultural methods. However, this may mask **soil deterioration**.

The use of **crop chemicals**, which probably varies according to the production method (e.g. manual weeding or not) **causes environmental and health problems in general** in many situations and **in particular in developing countries**<sup>31</sup>; these have been little documented for sugar. Australia, the main developed country producing cane, is performing an in-depth

<sup>27-</sup> Letter from BIES 6/05.

<sup>28-</sup> CGB sources and Illovo subsidiaries report; this corresponds to USD 160 to 185 per t of sugar, which seems considerable.

<sup>29-</sup> In practice, the numbers of cane cutters reported by the companies are always higher than would be implied by the daily reference yield: the real costs is thus probably higher unless the numbers are over-estimated to a certain degree.

<sup>30-</sup> Not based on genetical engineering (GMOs) so far.

<sup>31-</sup> According to WHO, 25 million cases of poisoning in developing countries were connected with the use of pesticides in agriculture.

study of the question of better environmental management of sugar cane.

Like all industrial-scale crops, cane is a factor in the **destruction of natural habitats**. This has already taken place in most cases (for example, the sugar cane plantations in the Nordeste in Brazil have made a large contribution to the almost complete disappearance of the Atlantic tropical forest). But **the area is still being extended**, often at the expense of extensive livestock farming zones in central southern Brazil and in African countries. In the case of Swaziland in particular, although smallholder sugar cane development projects<sup>32</sup> can generate a gross margin of USD 11 per t of cane, they contrib-

ute to the loss of traditional grazing areas, including those in the richest alluvial zones and are a threat to the way of life and culture of the population and also to biodiversity.

In this case, the setting up of small plantation systems compromises the natural environment. More generally, it can be considered that small farms, in which cane is grown along with other crops and especially food crops, are more propitious for diversity of plant cover and biodiversity. ■

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<sup>32</sup>- *Policies for small-scale sugar cane growing in Swaziland, UNCTAD 3/2000.*



## 4 – Conclusion: towards preferential quotas?

### Preferential quotas, a larger scale form of fair trade?

The existence and development of preferential import quotas awarded by the EU was hitherto a **guaranteed income that already benefited some countries (ACPs) or that was to come (LDCs)**. It can be seen that **the use of this income** may be **divided between several items** that can be considered as being more or less useful for development, with distribution varying according to the country:

- **low yield, excessive costs:** the potentially comfortable profit margin may hinder improvement of productivity and organisation. This concerns industrial production and agricultural production and external costs (e.g. the purchase of electricity that could be generated on the spot, inefficient irrigation, etc.). It is true that the system can provide a livelihood for a large number of people but it is also a threat to future viability. This is the case in many countries with high production costs;
- **the cost of transport of the sugar to Europe** and transport during re-exporting, as a large proportion of the sugar is refined in Europe and then sold in white form (some African factories that generally produce white sugar supply sugar for refining specially for this use). As Africa is a net sugar importer, channels other than shipping to Europe might be preferable. If the system planned for the LDCs were to develop as envisaged (that is to say outside the European reform), a **'swap' system** could develop in which **the country benefiting from the quota would export its production to Europe while importing sugar for its own consumption** from a quota-less low price country (like South Africa)<sup>33</sup>. Such operations do not really exist at the moment and would come down to subsidising the existing sugar industry at the cost of substantial waste in

transport (logistics costs are some USD 60 to 160 per t of sugar according to the country);

- **large after-tax profits for some of the sugar companies**, with this profit possibly reinvested or, in contrast, leaving the country;
- **taxes contributing to public finances;** export taxes rare; probably mainly corporate income.

These two sources have made it possible for certain countries to develop interesting new diversification techniques or pathways (other sugar products, energy, etc.) and infrastructure—in short the general economy of the country (the case of Mauritius is emblematic even though it is still very dependent on sugar production).

- **payment for the sugar cane sold by independent planters** of various sizes: this is common in the ACP countries and a minor case in the African LDCs. This payment seems substantial for the African countries and much more limited for Brazil, for example. Part can be taken up by what can be considered as under-performance, but a more complete approach would be necessary as intensification is not automatically a factor in the improvement of results. In fact, the way in which sugar is integrated in the rest of agricultural production and in the rural economy for small planters requires more ample documentation;
- **payment of workers** in factories and above all in terms of numbers in cane cutting; **the conditions of this payment are ambivalent: payment is both minimum** in terms of the financial amount and in terms of living conditions (even less in case of mistreatment) and **also comparatively desirable** in many situations in which there is no other source of work and social services are not available.

The **non-calculated costs of sugar production** are classified as a negative externality, especially with regard to **environmental resources** (use of water and land, effluents and harm to biodiversity).

<sup>33</sup>- This system is not forbidden by the 'Everything but Arms' agreement, which requires only that the sugar covered by the quota truly originates in the country in question (which does not rule out fears of direct trafficking in pseudo-LDC sugar).

**In conclusion**, it can be considered that a mechanism like preferential import quotas<sup>34</sup> is a form of fair trade (consisting of paying producers enough to ensure that their families' lives are in conformity with human dignity) or are even 'more than fair' up to now insofar as the European price is currently higher than necessary. The difference

with fair trade in the pure use of the term is twofold: on the one hand the volumes concerned are fully significant, but on the other there is no particular guarantee with regard to the use and distribution of the financial flows. Depending on the country and the measures, the economic impact is different and so are the beneficiaries.■

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<sup>34</sup> And also domestic protection regimes for sugar sectors.

**Catherine Mollière,**  
Crédit Agricole s.a. for **FARM**

*At the Conference:*

**'Hong Kong –15 Farmers Take the Floor'**  
**Paris, 30 November and 1 December 2005**



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