|  |  |
| --- | --- |
| **Consultation document for Fairtrade Stakeholders:**  Review of the Fairtrade requirements for Mass Balance in Sugar | |
| Consultation Period | 21.12.2016 – 20.02.2017 |
| Project Manager | Fabienne Yver, Project Manager,  [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). |

# PART 1: Introduction

1. General Introduction

Fairtrade Standards support the sustainable development of small-scale producers and workers in the Global South. Producers and traders must meet applicable Fairtrade Standards for their products to be certified as Fairtrade. Within Fairtrade International, Standard & Pricing (S&P) is responsible for developing Fairtrade Standards. The procedure followed, as outlined in the Standard Operating Procedure for the Development of Fairtrade Standards is designed in compliance with all requirements of the ISEAL Code of Good Practice for Setting Social and Environmental Standards. This involves wide consultation with stakeholders to ensure that new and revised standards reflect Fairtrade International’s strategic objectives, are based on producers’ and traders’ realities and meet consumers’ expectations.

You are kindly invited to participate in this consultation reviewing the group mass balance requirements for sugar. For this purpose, we kindly ask you to comment on the proposals suggested in this document and encourage you to give explanations, analysis and examples underlying your statements.

Confidentiality: Please note that **all information we receive from respondents will be treated with care and kept confidential.**

**Please submit your comments to the Project Manager, Fabienne Yver at: standards-pricing@fairtrade.net by 20-02-2017.** If you have any questions regarding the draft standard or the consultation process, please contact the Project Manager by email.

Following the consultation round we will prepare a paper compiling the comments made, in an aggregate and anonymous form, which will be emailed to all participants and also be available on our Fairtrade International website. Next steps of the project are presented below in section 4.

1. Background

|  |  |
| --- | --- |
| The Trader Standard currently allows group mass balance for cocoa and sugar, but only until 2017. When group mass balance was introduced in 2011, it was allowed only for a limited period, initially until 2015. It was then extended to 2017, because the reality of trade chains made it unrealistic for global supply chains to convert to single site mass balance. In 2015, Fairtrade conducted a desk research on group mass balance. The outcome showed that group mass balance will be further needed beyond 2018, especially in sugar, in order to maintain Fairtrade sales, in a context of trade agreements, CAP reform, and high pressure on costs. However, the research also pointed out that the requirements related to group mass balance need to be improved to enable a better overview over group mass balance practices.  Please note also that research findings highlighted concerns about communication to consumers on pack for products traded under group mass balance (and mass balance in general). As a result, work is ongoing to revise on-pack messaging in order to better differentiate physically traceable from mass balance products.  In addition, the Sugar Standard review of 2015 included a section on the issue of beet/cane swap.  The proposals in this consultation are therefore based on the both the desk research findings and the outcomes of the Sugar Standard review on beet / cane swap.  In the case of cocoa, the consultation on group mass balance for cocoa will be incorporated into the cocoa standard review consultation, which takes place separately. Please find the consultation on cocoa here:  <https://www.surveymonkey.de/r/Fairtrade_CocoaReview_2016_EN>   |  | | --- | | 1. Objectives   This consultation focuses on improving the requirements related to group mass balance and the swap of beet and cane sugar. The aim is to ensure greater benefits to producers, without compromising on the transparency and integrity of the Fairtrade label.  The main objectives of this consultation are:  - the removal the deadline for phasing out group mass balance, to enable Fairtrade sugar sales to be maintained beyond 2018.  - the revision of related requirements to ensure better control over the transactions.  - the revision of the beet cane swap rules, to maintain and open up market opportunities for Fairtrade sugar, in a transparent way. |   The target groups of this consultation are:   * Sugar producers already certified or interested in becoming certified under the Fairtrade Standard for Sugar. * Licensees and traders certified or interested in becoming certified under the Fairtrade Trader Standard and the Fairtrade Standard for Sugar. * Producer Networks, National Fairtrade Organisations, Fairtrade International, FLOCERT, public sector and civil society actors researchers, and other stakeholders. |

1. Project and Process Information

The project started in September 2016. The project assignment is available on the Fairtrade International website here:

<http://www.fairtrade.net/fileadmin/user_upload/content/2016-12-14_PA_GMB_review_final.pdf>.

The current Fairtrade Standard for Sugar is also available on the Fairtrade International website, here:

<http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/Cane_Sugar_SPO_EN.pdf>.

The Fairtrade Trader Standard can be consulted here:

<http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/TS_EN.pdf>

The progress to date and next steps are described below:

|  |  |  |
| --- | --- | --- |
|  | **Timeline** | **Activity** |
| **2016** | Sept. – Oct. | * Planning and research |
| Nov. Dec. | * Preparation of proposals |
| Mid. – Dec. – mid. Feb. | * Consultation |
| **2017** | March | * Analysis of feedback and preparation of final proposal |
| End March | * Presentation to Standards Committee for approval |
| April | * Publication of revised Standard |

1. Acronyms and definitions

B2B: Business to Business

CAP: Common Agricultural Policy

GMB: Group Mass Balance

GPM: Global Product Management

MB: Mass Balance

NFO: National Fairtrade Organisation

PN: Producer Network

SC: Standards Committee

S&P: Standards &Pricing

**PART 2: Draft Standard Consultation**

This consultation is divided into the following sections:

[0. Information about your organization 5](#_Toc469659995)

[1. Group Mass balance 6](#_Toc469659996)

[2. B2B (Business to Business) transparency on mass balance 7](#_Toc469659997)

[3. Beet Cane swap 8](#_Toc469659998)

Each section first introduces the background information to the specific issue. Where relevant the proposed changes to the standard are then presented and then you are asked for your opinions and feedback.

**Please take as much space as you need to respond to the questions and provide as much as possible your rationale for your responses and any other comments you may have on the proposals, or suggest alternative proposals.**

1. Information about your organization

Please complete the information below:

|  |
| --- |
| **Q 0.1** **Please provide us with information about your organization so that we can analyse the data precisely and contact you for clarifications if needed. The results of the survey will only be presented in an aggregated form and all respondents’ information will be kept confidential.**  Name of your organisation           Click here to enter text.  Name of contact person      Click here to enter text.  Email of contact person           Click here to enter text.  Country      Click here to enter text.  FLO ID Click here to enter text. |
| **Q 0.2 What is your responsibility in the supply chain? Please tick all applicable boxes**  Producer  Exporter  Importer  Processor  Licensee  Fairtrade system staff (Fairtrade International, NFO, PN or FLOCERT staff)  Other (please specify)  Click here to enter text. |
| **Q 0.3. If you are a trader: Regarding traceability, do you trade Fairtrade sugar under: (please tick all relevant boxes)**  physical traceability  single site mass balance  group mass balance  not applicable  **Q 0.4. Do you mix any cane sugar with beet sugar in your Fairtrade sugar?**  Yes  No  I am unsure |

1. Group Mass balance

The main objective in the revision of the mass balance standard requirements is to achieve greater simplicity, transparency and oversight of Fairtrade flow of goods.

Currently, the Trader Standard distinguishes between:

- physical traceability (also called segregation): Fairtrade ingredients are kept separate from non-Fairtrade ingredients, so that the Fairtrade content of the final product comes from Fairtrade producers.

and

- mass balance: Fairtrade ingredients are mixed or substituted with non-Fairtrade ingredients. For each volume sold as Fairtrade, an equivalent volume is bought under Fairtrade terms.

Within mass balance, there is a distinction between:

- Single site mass balance (SSMB): mixing and substitution of Fairtrade and non-Fairtrade cocoa within one site, and

- Group mass balance (GMB): mixing and substitution of Fairtrade and non-Fairtrade cocoa between different sites of a company[[1]](#footnote-2).

Currently, about 90% to 95% of Fairtrade sugar is traded under mass balance.

Group mass balance is permitted only for Cocoa and for Sugar currently and only until the end of 2017, except in origin countries, where group mass balance for cocoa and sugar is allowed without time limit[[2]](#footnote-3).

Further down the chain, group mass balance may happen to enable the sale of Fairtrade sugar, given that price competitiveness is key in sugar, and government regulations and trade agreements can restrict the trade of cane sugar.

Desktop research carried out by Standards & Pricing from September to December 2015 highlighted the need to continue GMB beyond 2017, to avoid a significant drop in the sales of Fairtrade cocoa and sugar. This is in particular the case for sugar, which is in a context of a structural change in the European sugar market. Due to the EU CAP reform, the European sugar market will become increasingly competitive, with large volumes of European beet sugar being released in the market. European market prices for sugar have been decreasing over the last months and Fairtrade producers have faced a loss of sales, for instance in the UK market. Due to trade agreements and market regulations, the only possibility to ensure sales of Fairtrade sugar is to allow group mass balance between companies’ sites in different countries.

The study however also showed that the GMB requirements need to be strengthened in order to ensure better oversight of transactions. It also highlighted a reputational risk in case of lack of clear communication to consumers. Please note that Fairtrade currently works on a clearer distinction between physically traceable products and mass balanced products in its branding approach with the aim to be more transparent especially to consumers. Results of this work will be available early in 2017.

We therefore propose to introduce conditions under which Group Mass Balance can be authorized, as follows:

*If a company wants to implement group mass balance, the company* ***needs to obtain permission from the*** *certification body* ***before*** *implementation. Any change in the sites involved in group mass balance also requires permission by the certification body.*

*The certification body will grant permission to apply group mass balance only if the following conditions are met:*

* *All sites involved in group mass balance belong to the same legal entity.*
* *One site needs to be designated as the central administration site, where information on all purchases and sales of the entities of the group is available.*
* *The group has an adequate Enterprise Resource Planning system (ERP) in place, common to all entities of the group, that centralizes all Fairtrade purchases and sales information, and enables checking that the volume of Fairtrade sugar sold by the group is not more than the volume of Fairtrade sugar input purchased by the group.*

*If any of the conditions above are not met anymore, the certification body has the right to withdraw the permission to trade under Group Mass Balance.*

With these additional rules, and with a clear on-pack communication that clearly differentiates physically traceable products from products traded under mass balance, we propose to remove the deadline for group mass balance, and allow it further, without time limit.

|  |
| --- |
| **Q 1.1. Do you agree with the proposed conditions for allowing Group Mass Balance for Sugar?**  Yes  No  I am unsure  **Please explain your rationale**  Click here to enter text.  **Q 1.2. Given the conditions above, do you agree that the deadline for Group Mass Balance for Sugar is removed and therefore GMB is allowed beyond 2017 without time limit?**  Yes  No  I am unsure  **Please explain your rationale**  Click here to enter text. |

2. B2B (Business to Business) transparency on mass balance

For transparency sake, companies buying Fairtrade sugar products should be informed whether the ingredients they are purchasing actually come from Fairtrade producers (physical traceability /segregation), or whether an equivalent Fairtrade volume was purchased from Fairtrade producers (mass balance). Currently, this information is only available for physically traceable sugar on the product itself.

We propose that:

*Each operator selling a Fairtrade sugar product is required to indicate in the sales documentation whether it is segregated / physically traceable or mass balance.*

|  |
| --- |
| **Q 2.1. Do you agree that all Fairtrade sales documentation in B2B should indicate whether the product is physically traceable (segregated) or mass balance?**  Yes  No  I am unsure  **Please explain your rationale**  Click here to enter text. |

3. Beet Cane swap

The Fairtrade Standard for Cane Sugar allows cane sugar operators to process Fairtrade cane sugar in premises also processing beet sugar. However, it does not allow operators to sell products exclusively made of beet sugar as Fairtrade.

But this requirement, as it is currently worded, diminishes flexibility and increases transport costs, both of which reduce the potential growth of sugar sales, and therefore producer benefits.

Therefore, In the Sugar Standard Review that took place in 2015, stakeholders were consulted on 2 options.

1) Keep beet-cane swap requirement and include rules about possible exceptions

2) Delete beet-cane swap requirement, and allow full swap without restrictions.

The consultation feedback was very split between the 2 options. The Standards Committee was in principle in agreement to allow beet-cane swap, but had concerns about the reputational risks in the lack of a clear communication. This is now being addressed as part of the branding work to offer more transparent communication on-pack on mass balance.

Taking into consideration the results of the consultation in 2015, we propose to allow traders to swap cane sugar for beet sugar, and to consider the following 2 restricting conditions:

1. An equivalent cane sugar volume has to be physically imported to consumer countries.

The intent of this condition is to avoid that those companies doing a “beet cane swap” have a comparative cost advantage by not having to import the cane sugar.

The disadvantage of this condition however is that it limits the benefits of the beet cane swap and might not lead to the expected market opportunities.

1. Operators need to indicate in their sales documentation to their B2B customers that the sugar sold as Fairtrade is not cane sugar but beet sugar (or a mix of both).

The intention is to greater transparency, so that buyers are aware of what they buy.

The disadvantage however is that it increases the amount of information companies have to provide to their customers, and could be perceived as an administrative burden.

|  |
| --- |
| **Q 3.1. Provided a clearer on-pack communication differentiates mass balance vs. physically traceable sugar, do you agree to allow a swap of beet sugar for cane sugar in the mass balance of white refined sugar?**  Yes, I agree to allow a full beet cane swap, but without any conditions  Yes, I agree to allow a full beet cane swap, but under certain conditions (see below)  No, I don’t agree to allow a full beet cane swap,  I am unsure  **Please explain your rationale**  Click here to enter text.  **In terms of conditions:**  **Q 3.2. do you agree to allow beet cane swap, under the condition that the cane sugar has to be imported to the consumer region ?**  Yes  No  I am unsure  **Please explain your rationale**  Click here to enter text.    **Q 3.3.** **do you agree to allow beet cane swap, under the condition that operators inform their customers that the sugar sold as Fairtrade is beet sugar, or a mix of beet and cane sugar?**  Yes  No  I am unsure  **Please explain your rationale**  Click here to enter text.    **Q 3.4. Please add any other comments, or suggest any alternative conditions and explain your rationale:**  Click here to enter text. |

If you need some more information before commenting on this document do not hesitate to contact Fabienne Yver, Project Manager ( [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net)).

1. For more information on mass balance and group mass balance, please consult the ISEAL Chain of Custody models and definitions, under the following link:

   <http://www.isealalliance.org/sites/default/files/ISEAL_Chain_of_Custody_Models_Guidance_September_2016.pdf> [↑](#footnote-ref-2)
2. Group mass balance can hardly be avoided in some origin countries, as the producers have to deliver their sugar cane to the nearest milling site: milling companies have different sites, processing Fairtrade and non-Fairtrade sugar. Group mass balance then takes place within the group of sites belonging to the same milling company, meaning that the Fairtrade cane is delivered to the sites closest to the Fairtrade cooperatives, and an equivalent volume of cane sugar is sold as Fairtrade, out of any of the sites.

   Group mass balance is therefore allowed in origin countries without any time limit. [↑](#footnote-ref-3)