Pilot Project extension

Fairtrade Premium for sugar sales in Southern Africa

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List of Acronyms

CAP:	Common Agricultural Policy
EU:	European Union
EXW:	Ex Works
FLSA:	Fairtrade Label South Africa
FOB:	Free On Board
FP:	Fairtrade Premium
FT:	Fairtrade
GPM:	Global Product Management (Sugar)
S&P:	Standards and Pricing
SADC:	Southern African Development Community
SC:	Standards Committee
SPO:	Small Producer Organization
ZAR:	South African Rand

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1 Background and rationale of the project

In the EU, the sugar market is facing challenges. Due to the CAP reforms, sugar prices and imports in the EU are under pressure. This might affect FT sugar volumes and FP income for producers. Therefore, it is interesting to look at opportunities for improving Fairtrade sugar sales on domestic and regional markets of Fairtrade producers.

This pilot project aims at improving Fairtrade sugar sales in domestic and regional markets, by introducing a differentiated Fairtrade Premium (FP) for these markets. This document focuses on setting a FP exclusively[1] for sugar sales in the Southern African Development Community (click here for a list of countries). By offering a lower FP for consumers in domestic and regional markets, it might be possible to open new market channels and generate additional volumes sold of Fairtrade sugar. The sales of Fairtrade sugar on domestic and regional markets (at a lower Premium level) would generate Premium income that is additional to the already existing sales on the conventional markets (at the full FP level). In addition, the current FP for sugar is set in USD. In some producer countries, local currencies depreciate steadily against the USD. This affects the commercial feasibility of the FP on these markets. Therefore, setting the FP in a local currency should increase the commercial feasibility of Fairtrade sugar sales on domestic and regional markets. In the case of SADC, it was agreed to set the FP in ZAR.

The general idea for setting a different FP for sales on domestic and regional markets was proposed during the initial stages of the Standard and Price review for cane sugar. This review was carried out between January and June 2015. The proposal was included in the public consultation of the Fairtrade Standard and Price review for cane sugar, where the majority of the participants voted in favor of the proposal for introducing a different FP level for sales on domestic markets. For more detailed information on the consultation results, please refer to the synopsis paper (click here).

The results of the consultation were presented to the Standards Committee (SC) in June 2015, where the trial period was initially approved. During this trial period, different pilot projects can be tested, introducing different Premium levels for sugar sales on different domestic and regional markets. The SC delegated the approval of the details of these pilot projects to the Director of S&P.

Since the SC approval, the pilot has been implemented in Southern Africa, with a FP of ZAR 600[2] (per MT of conventional sugar) for sales within the SADC region. At the time of the consultation and

[1] Although this paper focuses exclusively on the SADC region, other regions are allowed to request a pilot project aimed at promoting sugar sales on domestic and regional markets in their respective region. Any stakeholder that wishes to request a pilot project for his region can do so by sending an e-mail to standards-pricing@fairtrade.net. S&P will then define the specific FP value for this region. Participation is limited to markets that are within the Fairtrade geographical scope.

[2] 600 ZAR (South African Rand) are equivalent to 43.98 USD (average bid exchange rate according to www.oanda.com at date 06/10/2017)

workshop to recommend a FP value, it was argued that by setting the FP in local currency and by slightly reducing the FP value, the commercial feasibility of selling sugar within the SADC region would increase.

The pilot was initially scheduled to end on October 14th 2017; nevertheless in its 77th meeting on September 2017, the SC agreed to extend the pilot to allow more time to businesses for local markets to be created and to monitor further the market development and perspectives. In the following section the terms and conditions of this extension are presented.

2 Terms and conditions of the pilot project extension

The following section describes the terms and conditions of this pilot project for introducing the FP for sugar sales in the SADC region. Please note that this pilot can be applied to all Fairtrade sugar sales, whether retail, composite, or FSP.

1. Scope: The pilot project will continue implementing a Fairtrade Premium level for Fairtrade sugar sales within the Southern African Development Community (SADC). Click here for a country list. This FP level is available for sugar that is bought from Fairtrade certified producers and sold on as Fairtrade sugar in the SADC region. Excluded from this pilot project is any Fairtrade sugar that is sold to operators or consumers outside of the SADC region.
2. Premium level: The FP level for Fairtrade sugar that is produced and sold to consumers in the SADC region is ZAR 600 per Metric Ton of conventional (non-organic) sugar. For sugar that is sold elsewhere, the ordinary FP level applies (click here). By default, the FP applies to the FOB level of the Fairtrade sugar. In case the sugar does not leave the producer country (i.e. the sugar is sold for consumption in the same country where it is produced), the FP applies on the EXW level at the sugar mill. This does not imply any changes to the premium amount, as the premium is fixed.
3. Timeline:
    a. The extension of this pilot project will be of 19 and a half months. The pilot project will resume, on October 15th 2017 and will end on May 31st 2019.
    b. During this period, S&P will monitor and evaluate the pilot project. If the pilot project is considered successful, the intention would be to formally include a differentiated Premium for domestic sales in the SADC region. At the second meeting of the year, June 2019, the SC will be asked to decide on approving the differentiated Premium for domestic sales of sugar cane in the SADC region.
    c. In case the pilot does not result in the approval of the Premium by the SC, the affected licensees will be allowed a period of 6 months after the end date of the pilot to sell any remaining stock of Fairtrade sugar under Fairtrade terms.
4. Additional requirements: Additional to the requirements in the Fairtrade Trader Standard and the Fairtrade Cane Sugar Standard, participants in this pilot must comply with the following requirements:

a. Prior to using the FP level for sugar sales in the SADC region, the licensee must request participation in this pilot project for his entire supply chain(s), including all operators. Participation can be requested by sending an e-mail to standards-pricing@fairtrade.net. The request should at least present the following information:
    - Name and FLO-ID of the licensee
    - Name and FLO-ID of the SPOs that will supply the Fairtrade sugar
    - Name and FLO-ID of any other operators in the sugar supply chain
    - Projection of the volume of sugar to be sold under this pilot project
    - Description of the final product to be sold on the consumer market
    - Intended consumer countries for the final product

    The FP level for sugar sales in the SADC region can only be used after the application has been approved by S&P.

b. The licensee and the suppliers of Fairtrade sugar keep records of all purchases of Fairtrade sugar that is bought using the FP for the SADC region. Additionally, the licensee keeps records of the sales of the Fairtrade sugar that was bought with the FP for the SADC region. In case the FT sugar was used for producing composite products, the sales records should refer to the sales of the composite products that were produced with the FT sugar that was bought with the FP for the SADC region. These records should allow the certification body and/or GPM Sugar to trace the Fairtrade sugar to the retail markets in the SADC region. These records should cover the period from the date on which S&P gave the approval for participation to the licensee, until the end date of the pilot project (May 31st, 2019). The existing rules for retro-certification will also apply to the FP for sugar sales in the SADC region.

c. In case the licensee does not sell directly to the retail market, the licensee includes a clause in their sales contracts, stating that the sugar bought with the FP for the SADC region is to be sold exclusively to consumers within this region.

d. In case the licensee sells Fairtrade sugar to markets inside the SADC, as well as to markets outside the SADC, the licensee keeps separate records of the volumes of Fairtrade sugar bought and sold with both the FP for the SADC region and the ordinary FP level. These records should allow the certifying body (and/or GPM Sugar) to trace the origins and volumes of sugar sold to retail markets inside the SADC region and outside this region. These records should cover the period from the date on which S&P gave the approval for participation to the licensee, until the end date of the pilot project (May 31st, 2019).

If you have any questions, or if you have interest to apply to participate in this pilot, please send an email to S&P, standards-pricing@fairtrade.net