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A Sweeter Future?

The potential for EU sugar reform to contribute to poverty reduction in southern Africa

Some countries in southern Africa, among the poorest in the world, have long-term potential to build sugar industries that contribute to poverty reduction. Their ability to fulfil this potential depends critically on the outcome of EU sugar reforms, currently under discussion, which will determine their access to the lucrative EU sugar market. Existing EU reform proposals will neither improve meaningful market access for the poorest countries nor end the scandal of export dumping. The EU must revise its reform strategy in line with its international development commitments.

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Summary

In the next few months, European policy makers will decide the fate of thousands of sugar workers and producers in some of the poorest countries in the world. From Mozambique to Malawi, Zambia to Ethiopia, sugar offers a lifeline for countless families who work on sugar plantations or grow sugar themselves. They earn enough to send their children to school, to buy food to feed them, and to obtain at least some of the essential medicines they need to treat them when they fall sick.

In countries ravaged by HIV/AIDS, devastated by years of civil war, lacking infrastructure and investment, sugar offers the potential to make an even greater contribution to poverty reduction. But much depends on the outcome of forthcoming reforms which will determine these countries' access to the lucrative European sugar market. Europe is reforming its sugar regime and the decisions taken will determine whether the enormous potential benefits of sugar production for very poor countries will be realised.

Trade in sugar could mean a sweeter future for Africa. New research from Oxfam shows that in Mozambique and Zambia alone, pro-development reform of European Union (EU) sugar policies could lead to the creation of over 30,000 jobs. Along with these jobs come attendant benefits for entire families: schools, hospitals and housing are regularly provided by the sugar companies operating in southern Africa. These benefits, in countries that are among the poorest in the world, cannot be overstated. In Mozambique and Zambia more than three quarters of the population live on less than \$2 a day, and thousands of people survive without running water or electricity, or access to basic healthcare or education. A job in the sugar industry can literally change lives.

In Sofala province in central Mozambique, employment figures have doubled since the rehabilitation of two large sugar estates. As a result of trade in sugar, Sofala has been transformed from the province with the highest poverty headcount in 1996-97, to the province with the lowest incidence of poverty in 2002-03. This success story could be repeated across the continent.

But the potential for poverty reduction from trade in sugar is in jeopardy. Developing countries are dependent on Europe not just for aid but also for a chance to trade their way out of poverty. The trade policies of Europe have repercussions way beyond its newly expanded borders, and this is no more strongly evident than in the sugar industry. Europe grows sugar, but at a very high cost, and therefore needs a complicated system of tariffs and quotas to protect its farmers and guarantee them a high price to cover their cost of production. This system impacts heavily on other sugar producing countries because it limits their access to Europe's market and distorts markets outside of Europe. Europe dumps around 5m tonnes of excess sugar on world markets each year, artificially depressing prices and depriving efficient developing country producers of potential revenue.

For certain groups of developing countries, the terms of access for their sugar exports to the EU is extremely important. Preferential access schemes

for the African Caribbean and Pacific (ACP) and Least Developed Country (LDC) groups allow members to sell a limited amount of their sugar to Europe at a much higher price than they would get elsewhere. For emerging producers in Mozambique and Zambia, members of the LDC group, who get limited access under the Everything But Arms (EBA) initiative, access to high European prices helps them to cover the costs of investment, development and expansion of the industry.

Reform of the EU regime is long overdue but the current Commission proposals will not serve the interests of developing countries. The EU has suggested steep price cuts over a short period of time but only limited quota cuts. This will neither end the scourge of export dumping nor improve market access for the poorest countries at remunerative prices. As a result, the proposals fail to demonstrate EU political will to achieve a pro-poor conclusion of the Doha Development Agenda negotiations at the WTO.

By rapidly reducing the price they receive for their sugar, the Commission's proposals imperil the chances of some of the world's poorest countries to establish thriving sugar industries that offer them a way out of poverty. Mozambique, Zambia, and several other LDCs have long-term potential for sustainable and internationally competitive sugar industries. These industries currently suffer from dilapidated transport systems and other infrastructural problems. They need time and support, as well as market access, to invest in measures to improve their productivity, increase their export competitiveness, and ensure that they develop on a socially and environmentally sustainable basis.

Under current plans, LDCs have preferential access for a limited sugar quota to the lucrative EU market until 2009, when the EU is committed to providing duty- and quota-free access under the Everything But Arms (EBA) initiative. The price they get at the moment makes this access extremely important, but if the EU implements the proposed price cuts, the benefit for LDCs of the end of quotas will be seriously reduced. For this reason, LDCs have asked the EU to give them more time to adjust to changing market conditions and an opportunity to build up their industries. They have asked for a further period (until 2016) of increased, but quota-limited, access to EU markets at remunerative prices.

ACP countries benefit from preferential access to the EU market for some 1.6 million tonnes of raw sugar a year. They are watching the EU reform discussions closely because some of them are high-cost sugar producers and will lose substantially from reforms that reduce the price they receive. Although they are not among the poorest in the world, some of these countries do have large numbers of poor people and their economies are highly dependent on sugar exports to the EU. Yet the EU has made no concrete proposals to help them adjust to the impact of EU reforms.

Identifying a pro-development reform strategy for EU sugar policies is complex. There will be winners and losers from any change to the status quo. Therefore, Oxfam's approach is to advocate a package of measures that are needed to address a range of issues of key concern to developing countries.

Oxfam calls on EU member states to place the needs of the world's poorest countries and people at the centre of the debate on EU sugar reform.

The direction of reform must be reoriented in line with Europe's international commitments, with the key objectives of:

- Deeper cuts in Europe's own sugar production to facilitate an increase in imports from LDCs and to end all EU sugar exports.
- Shallower price cuts and a longer implementation period than those proposed by the Commission.
- Accelerating and expanding market access for LDCs at remunerative prices.
- Assisting LDCs to develop their supply capacity and improve their competitiveness through the provision of targeted aid and technical assistance.
- Providing an effective package of measures, including compensation, to help ACP suppliers adjust to EU sugar reforms.
- Ending all direct and indirect subsidies for export dumping.
- Promoting a socially and environmentally sustainable sugar industry, both in the EU and globally.

EU sugar reforms must include measures to help to secure increased investment in those LDCs that have long-term potential to develop sustainable sugar industries, such as Mozambique and Zambia. This means responding positively to the LDC proposal on trade and providing targeted aid and technical assistance to help LDCs build their supply capacity and improve their competitiveness. Oxfam acknowledges that price cuts will take place as part of the reform process, but argues for adjustments through deeper domestic quota cuts and lower price cuts than those proposed by the European Commission.

At the same time, the EU must devise additional measures to help promote the sustainable development of sugar industries in individual LDCs and ACP countries with the potential to survive in a more competitive environment with lower prices. These should include the provision of aid or concessional finance, as well as incentives to comply with international labour standards.

For high-cost ACP sugar suppliers that will lose out under any EU sugar reform, an effective package of measures, including compensation, must be developed in consultation with the key stakeholders in each country to help them adjust. Of critical importance is a political commitment to ensure that funds provided either for compensation or diversification are delivered on time.

National governments in sugar-producing developing countries and sugar companies also have responsibilities to ensure that opportunities to increase sugar production and export are translated into genuine poverty reduction benefits.

1 Introduction

'Cutting sugar cane is difficult. I was not very good when I started but I am better now, faster. At the end of six months, if they say I can keep working then I will. I need to earn money to support the family. Things are difficult here – I still get blistered hands and the money is not really enough, but I am glad to have a job.'

For Inacio Albano, a labourer on Marromeu sugar plantation in Mozambique, the wage he earns from cutting sugar cane provides a lifeline, enabling him to support his mother, father and four brothers. Although the work is hard, there are few alternative opportunities to earn a living in this remote rural area of central Mozambique and jobs in the sugar industry are highly valued. Thousands of workers and smallholder farmers across southern Africa – in some of the world's poorest countries – similarly depend on income from sugar to send their children to school and to pay for health care when they or their families are sick.

The sugar sector in Mozambique, as well as in other least developed countries (LDCs) such as Zambia and Malawi, has huge potential to generate increased benefits in terms of employment and poverty reduction. These countries are among the most competitive sugar producers in the world. However, building an industry that is socially and environmentally sustainable in the long term requires national reforms to improve the situation of small-scale farmers and agricultural labourers, and to protect the natural environment. It also requires a favourable economic environment to attract more investment into the sector – and that depends critically on decisions to be taken in the coming months by European policy-makers in the debate over European Union sugar reform.

Because of their limited domestic markets, most LDCs need to look outward to exports as the main opportunity for expansion of their sugar industries. Within this context, by far the most attractive export market is Europe. LDC sugar exports attract prices in Europe of just over \$600 (€497) per tonne¹, compared with world market prices of below \$200 per tonne. However, under current arrangements, the volume of sugar that LDCs can export to the EU is very limited. Oxfam's research in Mozambique and Zambia shows that if European reforms were implemented in a way that offered the world's poorest countries the chance to expand their sugar industries on a sustainable basis, they could make a substantive contribution to poverty reduction. This is particularly crucial in a region ravaged by the HIV/AIDS epidemic.

A further period of secure access to EU markets at remunerative prices, combined with additional support to promote improved labour and environmental standards, could make the difference between success and failure in the development of long-term viable sugar industries. Targeted aid to help LDCs invest in building their sugar supply capacity and export competitiveness is also needed. The extent to which the latter is required depends critically on decisions to be taken about EU prices since that will affect the income available for reinvestment in the sugar sector. Oxfam estimates that an EU reform package that secures additional investment in the sugar sector could result in the creation of more than 20,000 new jobs in Mozambique and over 4,000 in Zambia, including new opportunities for smallholders to move into sugar production.

Increased income could bring further benefits in terms of more favourable working conditions for employees in the industry, although these will also depend on the strengthening of trade unions and non-governmental organisations concerned with labour rights. Increased foreign exchange earnings from sugar exports would also help to finance essential imports.

Sugar reform is on the European political agenda, but current reform proposals ignore the needs and concerns of developing countries and utterly fail to live up to the EU's rhetoric on promoting poverty reduction and sustainable development. The price cuts and limited quota reductions that have been proposed will both undermine the value of preferential access for the poorest countries and fail to end over-production and export dumping. The reform proposals also fail to incorporate concrete plans to address the needs of African, Caribbean and Pacific (ACP) countries that stand to lose most as a result of EU sugar reform.

The arrival of the new European Commissioners for agriculture and trade provides a key opportunity to draw up new reform proposals in line with the EU's international responsibilities, and to push through reform before the end of 2005. If reform of the EU sugar regime encourages fair and sustainable development, there is a significantly greater chance that the WTO Doha Development Agenda negotiations will secure an end to unfair export dumping and improvements in the terms on which poor countries trade.

This paper presents Oxfam's case and proposals for EU sugar reform to secure investment in the sustainable development of the sugar industries in some of the world's poorest countries. Part 2 outlines the problems with existing EU sugar policies, while Part 3 describes the potential for sugar to contribute to poverty reduction and sustainable development in two LDCs in southern Africa:

Mozambique and Zambia. Part 4 describes the challenge for EU policy-makers in ensuring that the reform produces an outcome that fulfils the EU's commitments to support poverty reduction and sustainable development, and presents Oxfam's policy recommendations.

2 The problem: EU sugar policies hamper poverty reduction

EU sugar policies constitute a highly complex and iniquitous regime that:

- restricts access to the EU market for sugar exported from many poor countries, especially the LDCs;
- promotes export dumping; and
- unequally distributes its benefits among beet growers and processors in Europe.²

Reform is long overdue, as the sector has escaped all previous rounds of Common Agricultural Policy (CAP) reform over the past 40 years.

However, changes in EU sugar policies have implications that reach far beyond Europe itself. The future of the sugar industry in a number of poor countries depends on access to the European market, where guaranteed prices offer a premium over world market prices. The dilemma is that these same high prices have encouraged overproduction and export dumping, undermining the markets of more efficient sugar exporters, mostly developing countries. It is therefore vital that EU reforms steer a careful course that places the interests of the world's poorest countries and people at its heart.

The costs of EU trade restrictions

For low-cost LDC producers of sugar, including Mozambique and Zambia, the greatest concern is how EU reforms will affect their access to the lucrative European market. The terms of market access – in relation to both price and quantity – will affect investment decisions that will determine the long-term potential for the sugar sector to generate employment and contribute to poverty reduction.

Existing EU policies severely restrict access to the European market for sugar exported from the developing world. While a small group of ACP countries benefits from preferential access to the high EU prices for some 1.6m tonnes of raw sugar a year, these benefits are distributed extremely unevenly, with some 80 per cent of all benefits going to just five countries: Mauritius, Fiji, Guyana, Swaziland, and Jamaica. Some of these countries are high-cost producers of sugar and stand to lose substantially from EU sugar reforms (see page 30 below). Only five LDCs – Madagascar, Malawi, Mozambique, Tanzania, and Zambia – benefit from preferential access under the

ACP Sugar Protocol and Special Preferential Sugar arrangements, and their combined share of the benefits is just 4 per cent of the total.

In 2001, the European Commission (EC) proposed to offer immediate access, free of duty and quotas, to the European market for all exports from LDCs – except armaments – in an initiative known as ‘Everything But Arms’ (EBA). Sugar was one of the products that would benefit most under the proposal. Unfortunately, sugar was also one of the three products where vested interests carried more weight than development concerns. Just as with rice and bananas, completely duty- and quota-free access for sugar was postponed until 2009.

The EBA initiative in the form it was originally intended could have had a major impact on the development of the sugar sector in some of the poorest countries in the world, since it offered LDCs the opportunity to sell sugar to the EU at a considerable premium over world market prices. The severe restriction of sugar import quotas under EBA has consequently cost the LDCs substantial potential export earnings.

Oxfam estimated the costs of EU sugar import restrictions for a number of LDCs, by calculating the foreign exchange that they would have gained if exports to the low-priced world market had been transferred to the EU at current prices since 2001. Mozambique, for example, could have expanded exports to the EU by over 80,000 tonnes, earning an additional \$38m in 2004, or an amount equivalent to total government spending on rural development. Malawi could have increased exports to the EU to around 68,000 tonnes in 2004. Market access restrictions will deprive the country of a potential \$32m in foreign exchange earnings, equivalent to around half of its public expenditure on health services.³

For these countries, the terms of market access for their sugar exports to the EU – with regard to prices as well as volumes – is extremely important. Apart from the export earnings that are essential for wider economic development, gaining a further period of secure access would give them the opportunity to attract investment to develop a sector that offers long-term potential to provide employment and to contribute to poverty reduction.

A reform of the EU sugar regime that involves deep price cuts, as currently proposed by the European Commission, radically changes that picture. For this reason, LDCs have asked the EU to give them more time to adjust to changing market conditions and an opportunity to build up their industries. LDCs have asked for a further period of increased, but limited, access at remunerative prices. Limiting their exports to a quota that reflects their export capacity

would provide them with stable export prospects, without undermining the European supply management system.

Specifically, the LDCs have asked the EU to amend the EBA initiative so as to grant them immediate additional access under a progressive quota covering all sugar products, i.e. refined as well as raw sugar. This additional access should be based on LDC capacity and be increased by 15 per cent annually, and capped at the 2012-13 level.⁴ Unlimited market access would be delayed until 2016. In doing so, the EU would maintain the value of preferential access for LDCs at remunerative levels. This would enable LDC producers such as Mozambique and Zambia additional time and income to invest in developing their sugar industries to face a more competitive environment with lower prices.

EU aid is also needed to help LDCs develop their sugar sectors on a sustainable basis. The level of aid required depends on the outcome of EU reforms on LDC market access. A very substantial package of aid would be required to offset any significant cut in prices, since this would reduce the revenue available for reinvestment in the sugar industry.

Wider development costs of EU sugar policies

Although Europe's preferential import arrangements are of greatest concern to the LDC producers in southern Africa on which this paper focuses, it is important to note the wider development costs of the EU sugar regime. The most significant is the damage caused by European sugar export dumping, which destroys the markets of more efficient developing country exporters. Since Europe is a very high-cost producer of sugar, its position as the world's second biggest sugar exporter is possible only as a result of a complex system of direct and indirect export support.

Calculations vary but one of the most widely used models predicts that world sugar prices are 20-23 per cent lower as a result of EU export dumping, reducing export earnings for more competitive sugar exporters.⁵ Assuming that the CAP lowers prices by 23 per cent and using export figures for 2002, Oxfam estimates that Brazil lost some \$494m as a result of EU sugar dumping that year, while costs for Thailand stood at \$151m and for South Africa at \$60m.

In some cases, EU sugar exports also compete directly with developing country exporters in third markets. South Africa faces subsidised competition from EU exports to Nigeria, Angola, Egypt, and Kenya. India faces competition from the EU in Bangladesh, Indonesia, and Singapore. Direct competition from EU sugar limits

export volumes for developing countries. Volume and price together have a radical effect on developing countries' incomes from their sugar exports.

The EU sugar regime also has environmental consequences. In a low price and fluctuating market extra investments in efficient resource use may be difficult to achieve, environmental restrictions may be seen as burdens and costs that the industry is unwilling to carry, and strategies to retain earnings may be based on unsustainable and damaging expansion or intensification of production.

3 Sugar, poverty reduction, and sustainable development in Mozambique and Zambia

'Zambia is a poor country at the moment but it has the potential to get out of this and prosper. One way is through agriculture and sugar. We have a competitive advantage here in terms of labour, climate and arable land. Exports to the EU are very important for us because they offer Zambia a profitable market for sugar. Zambia's market is small – just 100,000 tonnes. But we can produce over 240,000 tonnes. So the rest has to find its way as exports – and so exports to the EU are very important to us.' – Nawezi Chinyanta, Export Manager, Zambia Sugar

'If we were sure we could get access into the EU market, we would begin looking at value-added markets like demerara sugar, for example. We don't want to simply produce sugar for European refineries because you miss out on the real gains. Eventually we would like to start producing the finished product here.' – Tony Smith, Financial Director, Marromeu sugar plantation, Sofala province, Mozambique

The importance of assured access to the lucrative EU market for many LDC sugar producers cannot be underestimated. In some cases, the EBA has already acted as a catalyst for domestic and foreign investment in sugar. In Mozambique and Zambia, sugar plays an important role in the national economy and makes a significant contribution to employment and overall economic development. This explains the intensity with which the governments of these countries, and those of other LDCs, observe the European reform process.

Oxfam's research in Mozambique and Zambia demonstrates that the expansion of sugar production and trade could make a significant contribution to efforts to reduce poverty and help to promote sustainable development in some LDCs. Nevertheless, the linkages are extremely complex and much depends on the implementation of national policies to ensure the enforcement of international labour standards, and to encourage the use of sound environmental management practices.

Sugar production has historically been concentrated on large plantations, and associated with poor labour conditions, low wages, inadequate protection against health and safety risks, and environmental damage. Developing country governments must integrate the development of their sugar sectors into a coherent strategy for poverty reduction that prioritises employment creation, respect for international labour standards, and investment in sustainable production.

The case for sugar development in Mozambique and Zambia

The LDCs have requested that EU sugar reforms take their needs into account by securing their access to the European market at remunerative prices for a further period of time. Their case rests on two factors. First, the important role that the sugar sector plays in their economies and development plans. The development of LDC sugar industries has the potential to generate substantial benefits in terms of poverty reduction through the creation of jobs in poor rural areas, as well as generating much-needed foreign exchange to purchase essential imports. Work for WWF shows that it is possible to grow and process sugar in ways that reduce environmental damage and use natural resources sustainably.⁶

Second, several LDCs have huge potential to develop viable long-term sugar industries – they are among the most competitive producers of sugar in the world. However, as with most emerging industries, their sugar sectors need time and stability to reach their potential.

Mozambique and Zambia are among the poorest countries in the world. Life expectancy in Zambia is the lowest recorded in the world, largely due to the high rate of HIV infection. Three-quarters of people live below the national poverty line in Mozambique. In both countries, poverty is far higher in rural than urban areas.

Table 1: Zambia and Mozambique

	Zambia	Mozambique
% of population living on less than \$2 a day	87%	78%
GDP per capita	PPP \$840*	PPP \$1,050
Life expectancy	33 years	38 years

*PPP – Purchasing Power Parity⁷

Source: UN Human Development Report, 2004.

Despite these depressing human development statistics, both countries are highly suited to sugar production and are among the world's lowest-cost sugar producers. The table below shows the costs of production for Mozambique, Zambia, and Malawi as a percentage of the average of the world's leading sugar exporting countries (Brazil, Australia, South Africa, Thailand, and Guatemala).

Table 2: Comparison of the costs of producing raw sugar between LDC industries and leading world market exporters

Countries	Ex-factory costs* average 2001-2003	Free on board costs** average 2001-2003
Zambia	102%	156%
Malawi	93%	113%
Mozambique***	135%	140%
World market exporter average****	100%	100%

* These represent the intrinsic costs of sugar production in each country.

** Free on board (FOB) costs include the ex-factory costs plus the costs of transporting the sugar to the port for export.

*** Mozambique data is for 2003 only because the industry is undergoing a period of rapid change, with a downward trend in costs, meaning that an average figure for 2001-2003 would be misleading.

**** The average costs for the world's leading sugar exporters: Brazil, Australia, South Africa, Thailand, and Guatemala.

Source: data from LMC International Ltd.

Both Zambia and Malawi match the world market exporter average in terms of their intrinsic production costs. Mozambique's ex-factory costs are higher, but the industry is undergoing a period of rapid change and intensive investment, which has seen costs fall. This downward trend is likely to continue bringing the country closer to the world exporter average cost.

Despite their low intrinsic costs of sugar production, both Mozambique and Zambia face significant cost challenges, which a further limited period of assured access to the EU market could help them to overcome. The relatively high cost of transporting sugar to port for export is a major issue, particularly for Zambia. This is due to the high cost and poor quality of transport infrastructure, which could be improved through investment over time. Another factor in Mozambique is the level of indebtedness of the industry, arising from an underestimation of the quantities that would have to be exported to low-price world markets at the time when initial investments were made to rehabilitate the industry in 1998.⁸

Box 1: The impact of HIV/AIDS

Mozambique and Zambia are among the countries worst affected by the global HIV/AIDS epidemic. In Mozambique, more than 1.3 million people out of a population of 18 million are believed to be living with HIV/AIDS. A recent report from the UN Food and Agriculture Organisation (FAO) warned that HIV/AIDS is threatening subsistence agriculture, as the country will have lost over 20 per cent of its agricultural labour force to HIV/AIDS by 2020.⁹ In Zambia, an estimated 16 per cent of people aged 15-49 are living with the virus, and there are over 600,000 AIDS orphans.¹⁰ Sub-Saharan Africa is the only region in the world in which HIV infection rates are higher among women than men. Young women and girls account for a staggering 80 per cent of young people aged 15-24 years living with HIV/AIDS in Zambia and Zimbabwe.¹¹

Poverty is a factor in HIV transmission and exacerbates the impact of HIV/AIDS, while the experience of HIV/AIDS can readily lead to an intensification of poverty. Perversely, there is evidence in Zambia that increased prosperity resulting from the success of a sugar smallholder scheme exacerbated the spread of HIV/AIDS, as men spent their earnings on alcohol and prostitutes, drawing sex workers from Lusaka. Fortunately this trend has now reduced because of increased awareness.

These countries desperately need every opportunity to integrate into the world economy on fair terms in order to help generate the resources necessary to address the HIV/AIDS crisis. Although the scale of the crisis means it needs to be addressed at a number of levels, pro-poor development of the sugar industry in southern Africa offers one potential opportunity to help tackle some related problems. For example, increased incomes and improved working conditions in the sugar sector could decrease the vulnerability of migrant workers to HIV infection. All sugar companies should do more to direct resources to HIV/AIDS prevention and treatment within their workforce.

Sugar expansion and the importance of the EU market

The sugar industries in both Zambia and Mozambique have the potential to expand production and exports. Because of their limited domestic markets, both countries need to look outward to export markets as the main opportunity for future expansion.

In Mozambique, sugar has been identified by the government as a key sector for development because of its potential to have positive impacts on poverty reduction, and its production and trade potential. Rehabilitation of the industry began in 1998 and government policies have aimed to attract investment by restructuring and privatising the existing sugar estates – four out of six of which have now been reopened. Decisions are pending on whether to rehabilitate the remaining two estates (Luabo and Buzi). According to its owner, the

Mauritian company Sena Holdings, rehabilitation of the Luabo estate, which would create 7,000 new jobs, depends on stable, remunerative prices for sugar exports.

Box 2: Case study - the benefits of rehabilitating Luabo sugar estate, Mozambique

Sugar production began on the Luabo estate in the mid-1920s but ended in 1985 when the plantation came under intense attack by rebel forces during the civil war. The estate and mill require rebuilding after damage caused by fighting and years of neglect. The estate's owner, Sena Holdings, is in discussion with the Mozambican government about the possibility of investing in its rehabilitation. This could bring huge benefits to people in the surrounding community, who have few opportunities to earn a decent living.

Maria Jose Chabuca, 52 years old, lives in a small but neat thatched hut. Her husband sells thatch to make a living and this is piled up by the side of the house waiting for people to come and buy. She reflects on the benefits that investment in reopening the Luabo sugar factory could bring.

'If the factory was working life would be so different, because everybody would be able to work. Even if someone didn't work directly at the factory, they would still benefit. There would be money and so people would buy things from each other and from the shops. The children would be better looked after – cleaner, healthier. Everyone would be better off.

'If my husband can't get work then we can't get enough to eat. If he didn't do his thatching work we wouldn't survive. One pile of thatch he sells for 5,000 meticals (\$0.24). A sack of maize costs us 60,000 meticals (\$2.93) and because there are so many of us the maize will sometimes only last two or three days. We mix the maize with the cassava that we grow to make it go further. We have to do this because it is expensive and we have no money. I go across the river in a canoe to find fertile land to grow sweet potatoes, even though it is dangerous because you might tip over and there are crocodiles. But I have no choice.'

Since 1998, an increasing proportion of domestic sugar consumption needs has been met by local production rather than imports (which previously came mainly from South Africa). This change has been partly facilitated by the introduction of a variable surcharge on sugar imports over and above the existing 7.5 per cent tariff, in spite of opposition by the International Monetary Fund.¹² Mozambique expects to become a net sugar exporter in 2004, and the government is seeking to expand exports beyond low-priced world markets to preferential markets, particularly the EU, where prices and quantities are potentially more secure.

In Zambia, the success of Zambia Sugar – 89 per cent owned by the South African multinational Illovo – in securing high returns on sugar production has attracted the entry of two new Zambian-owned mills over the past three years. While Zambia Sugar is already highly competitive, these new, infant sugar companies will require a period of protection in order to improve their productivity and export

competitiveness. They currently account for less than 10 per cent of total production, but at least one of them, Consolidated Farming Limited (CFL), has the potential for considerable expansion, including for export.

The domestic Zambian market for sugar is limited and slow-growing; it depends on the level of farm incomes and whether subsistence farmers have money to buy sugar from year to year. This means that prospects for sugar expansion depend primarily on access to export markets. Because both regional and world export markets are price- and quantity-insecure, the EU market – offering the best export price and a stable environment – is of key importance for the future of the Zambian sugar industry.

Table 3: Exports by destination and price, 2003

Zambia				Mozambique			
Export market	Volume (tonnes)	Price per tonne (factory gate)	Total revenue \$m	Export market	Volume (tonnes)	Price per tonne (factory gate)	Total value \$m
EU	22,599	\$412	9.31	EU	10,400	\$526	5.47
SACU*	17,470	\$237	4.14	USA	13,000	\$302	3.93
Reg'l market **	72,327	\$267	19.3	SACU	11,481	\$298	3.42
				World markets ***	27,874	\$118	3.29
Total	112,400		32.75	Total	62,755		16.11

* Southern Africa Customs Union

** Including Democratic Republic of Congo and the Great Lakes Area

*** These include markets in the Middle East and China.

Sources: *Illovo*, *National Sugar Institute of Mozambique*, *Oxfam estimates*.

Europe is by far the most attractive export market for LDC sugar exporters like Mozambique and Zambia. Exports under EBA attract prices in Europe of just over \$600 (€497) per tonne,¹³ compared with world market prices of below \$200/tonne. Under current arrangements, the volume of sugar that either country can export to the EU is very limited, accounting for just 20 per cent of total Zambian sugar exports and 16 per cent for Mozambique. Yet because of the high prices received in the European market, the value of exports to Europe in 2003 was \$9.3m for Zambia and \$5.5m for Mozambique,¹⁴ accounting for 28 per cent and 34 per cent of total export values respectively.

The other significant export markets for both Mozambique and Zambia include regional markets in Africa, some of which offer better prices than the world market but are still significantly lower than the current EU price. However, some of these markets are affected by conflict and insecurity, particularly the DRC, and competition for markets within the Southern Africa Customs Union (SACU) is expected to increase, as overall African sugar supply is growing.

Mozambique has a preferential trade arrangement to export sugar to the USA, although the benefits of higher prices in that market are threatened by negotiations between the USA and Mexico under the North American Free Trade Agreement (NAFTA). The remaining substantial volume of exports from Mozambique goes to international markets in the Middle East and China. These are residual markets and do not always even cover the costs of production.

Investment decisions in the sugar sector depend on companies' projections of future revenues, which are a function of both the quantity of sugar they expect to be able to sell and the price they expect to receive for that sugar. These factors highlight the critical importance of a secure European market for the development of the sugar industries in southern Africa.

If Mozambique and Zambia were given increased access to the EU at remunerative prices, as LDC governments propose, they would immediately be able to redirect sugar exports from other, less lucrative markets, at the same time as expanding their overall production for export.

Zambia Sugar has already identified potential land to increase production by over 40 per cent from 250,000 tonnes to 340,000 tonnes a year. The company would like to involve independent farms and smallholders in the expansion.¹⁵ Consolidated Farming Ltd (CFL), one of the new locally-owned sugar companies established in Zambia, has the potential to increase annual production from 20,000 tonnes (currently all sold on the domestic market) to 60,000 tonnes, with part of the additional production destined for export. The companies have agreed to share the EU quota on a pro rata basis depending on each company's production levels, which means that CFL will get 10 per cent.

In Mozambique, official estimates suggest that total exports could more than double to 130,000 tonnes a year by 2007.¹⁶ All four sugar estates that are currently operational have potential to extend the area planted to sugar cane:

- Marromeu estate in the central province of Sofala, owned by the Mauritian company Sena Holdings, is the only company

producing white refined sugar. It plans to double its production from 36,000 tonnes in 2004 to 60,000 tonnes by 2007.

- Maragra estate in the southern province of Maputo, owned by Illovo, plans to increase its production of cane sugar from 15,000 tonnes in 2001 to 85,000 tonnes by 2008/09.
- Xinavane estate in Maputo province, owned by Tongaat-Hulett South Africa, will expand production from 18,000 tonnes in 2001 to 65,000 by 2005. It has potential for further expansion to over 120,000 tonnes a year, but this would involve substantial new investment in infrastructure and increasing the area planted to cane. The decision on whether to implement these expansion plans depends on the security of export markets, particularly in Europe.
- Mafambisse in Sofala province, owned by Tongaat-Hulett, has plans to invest in expanding production from around 40,000 tonnes in 2004 to almost 80,000 tonnes from 2006.
- In addition, two further estates with mills – Luabo on the border of Sofala and Zambezi provinces, and Buzi in Sofala – are awaiting rehabilitation. Sena Holdings is considering investing \$110m in Luabo to produce 70,000 tonnes of sugar a year. Again the new investment depends on the security of export markets.

The potential for poverty reduction

Oxfam's research in Mozambique and Zambia examined the linkages between the sugar industry and poverty reduction. These linkages are extremely complex: there is not always a direct relation between poverty reduction and employment. Poor-quality, low-paid jobs do not automatically provide a way out of poverty, and the record of working conditions in the sugar industry is generally poor.

Nevertheless, our research shows that work in the sugar sector is highly valued by people with few alternative sources of income. The challenge lies in the creation of higher-quality, better-paid jobs and improved labour conditions. In the context of national policies to ensure compliance with international labour standards and better environmental practices (see section 3.4 below), there is great potential for the sugar sector to improve standards of living.

Oxfam estimates that sugar expansion in Zambia and Mozambique, linked to increased access to the EU market at remunerative prices, could lead to the creation of over 30,000 new jobs. In Zambia, more than 3,200 new jobs would be generated and 85 more smallholdings would be created, employing over 1,000 people.¹⁷ Forecasts for

Mozambique for 2012 suggest that direct employment could increase by around 20,000 people, with an additional 10,000 jobs created by increased economic activity around the sugar industry, if sufficient investment were secured to fulfil the industry's full production potential. Attracting this investment depends on the security of export markets, particularly in Europe.

Employment

Sugar can be an important source of employment and it is through job creation that the sugar industry has the most direct impact on poverty reduction.

In Mozambique, the sugar estates are located in some of the poorest areas of the country, where there are few other job opportunities. Since rehabilitation started in 1998, employment in the sugar sector has increased to around 22,000 jobs.

The experience of Sofala province in central Mozambique is particularly positive. This was one of the provinces hardest hit by civil war, and it faced unemployment levels as high as 19 per cent in the late 1990s. Since the rehabilitation of two large sugar estates in the region, employment figures have doubled.¹⁸ This has coincided with a dramatic fall in poverty: Sofala has been transformed from the province with the highest poverty headcount in 1996-97, to the province with the lowest incidence of poverty in 2002-03. The rehabilitation of social services and increased economic activity around the sugar estates have significantly contributed to these results.

In Zambia, the sugar industry currently provides employment for over 6,500 people. Zambia Sugar employs up to 6,000 workers through the course of the year on its own estates and in the mill. Around 4,000 of these are seasonal workers, most of them working in the cane fields. In addition, 161 smallholders are involved in the Kaleya Smallholder Scheme (see box below).

Salaries

Salaries in the sugar sector are low. This is particularly true for farm labourers and even more so for labourers employed by smallholder farmers. The latter are generally employed on far worse terms than workers on the sugar estates.

In Mozambique, labourers on the sugar estates earn around \$36 per month, while the average wage for workers in the sugar industry is \$50 per month. According to trade unions and other civil society organisations, this is not a 'living wage', i.e. it is not enough to cover family costs. A bag of rice that will just about last one month for an

average family costs \$14, while anti-retroviral treatment for those with HIV/AIDS costs \$50 per month.

In Zambia, a family of six in Lusaka was estimated to need 1m kwacha (around \$200) a month in early 2004 to meet their basic needs. That is equivalent to the salary of a research supervisor at Zambia Sugar, but three times the income of a female weeder. The wages of labourers on smallholder farms are lower still.

As most workers in the sugar sector cannot survive on their monthly wages, they continue to draw on alternative sources of income. Many cultivate subsistence crops on their own plots in order to reduce the costs of living. Seasonal work in the sugar sector falls mostly in the dry season, making it relatively complementary to the farm work at home. Nevertheless, the combination of workloads can be problematic, especially for single-parent families, which are most often headed by women.

Box 3: Case study - 'The salary is not enough but at least I have something to help me get by'

Viznera Virgilo, 39 years old, is an agricultural worker on a permanent contract at Marromeu sugar plantation, Sofala province in Mozambique. She started work there in 2001.

'I have six children. The eldest is 12 and the youngest is a baby. My husband has left us. The money that I earn here is what I need to support my children. It is not enough. I don't have anyone to help me with money or looking after the children. My ex-husband doesn't help. When I am at work my eldest daughter looks after her siblings. She is growing up fast. It is hard for her. She has to go to school and have the responsibility of looking after her brothers.

'Before I worked here I stayed at home and looked after the children and worked on the land. When my husband left I had to get a job. I start my day around 5am and finish about 11pm. It depends on how much there is to do and how fast I work. I mainly do weeding and planting. It is OK work – I can manage it. But I am tired when I finish. Too tired to work in my own garden. This means all the food we eat I have to buy because I have no energy to grow our own.

'If we don't come to work we get a cut in our wages. I get paid 806,000 meticals (\$39) a month. Of this I take home 780,000 (\$38) after taxes and other deductions. A bag of rice costs us 325,000 (\$16) and a can of maize is about 50,000 (\$2.4). This food will last us the month, but with difficulty. I had two months off when I had my baby. I was entitled to maternity leave on full pay.

'I am happy because even though the salary is not enough, at least I have something to help me get by. I feel sorry for the people in Luabo, because since the sugar mill closed down they have no work and they have no choices.'

Labour standards and working conditions

Both in Zambia and Mozambique, trade unions have serious concerns about working conditions in the sugar sector. While conditions may differ considerably between countries and estates, their worries include the following:

- Cane cutters are often paid a piece rate (i.e. per tonne harvested). In some cases their daily targets are set very high, making them difficult to achieve. In some reported cases, salaries have not been paid when a daily target was not achieved.
- Health and safety risks are very high. Some big companies provide their workers with goggles against eye cuts, masks against dust, or protective clothing when fertilisers are applied. Many of them do not, however, and the situation is worse on shareholders' farms.
- There is evidence of poor attitudes by some companies to workers' attempts to raise concerns about their working conditions.
- Seasonal workers regularly work without contracts, and are paid even lower wages than their permanent colleagues. Access to basic social services is often limited for them.

Box 4: The ILO's core labour standards

In 1998 the International Labour Organisation adopted the Declaration on Fundamental Principles and Rights at Work, which refers to the so-called 'core labour standards'. These are defined as:

- freedom of association and the effective recognition of the right to collective bargaining
- the elimination of all forms of forced or compulsory labour
- the effective abolition of child labour, and
- the elimination of discrimination in respect of employment and occupation.

All members of the ILO have an obligation to respect, promote and realise these labour standards, even if they have not ratified the conventions in question. Mozambique and Zambia have both ratified all core labour standards, but trade unions are concerned that they are not always fully respected. Other LDC sugar-producing countries have also been criticised for not respecting ILO core labour standards. For example, in Sudan the use of forced labour is a major problem. There are examples of repression of trade unions and sexual harassment in the sugar sector¹⁹ and trade unions in southern Africa are worried that the introduction of outgrower schemes may encourage the use of child labour where families cannot afford to hire adult labour.

Box 5: Case study - 'This job gives me no access to my future'

David Banda, 33 years old, is a casual worker on the core estate run by Kaleya Smallholder Company in Zambia. David has four children: aged 12, 9, 4, and one year. They live with their mother in Kaleya, a shanty town nearby.

'I am employed as a general worker maintaining the estate. I am a seasonal worker with a contract only for the next four months. I earn 342,000 kwacha a month (approximately \$70) plus the housing allowance if they don't give you housing. If you are sick they take you to the hospital, even if you are a seasonal worker, but they won't take your family. If the children get sick, they have to go to the government clinic.

'I don't know what I will do at the end of my contract. It is better to be a farmer than a labourer. I am a man with a family. Maybe next year they won't recruit you. You can be a seasonal worker for 10 years. I've got no land. I can't get a farm. I have no money. This job gives me no access to my future. It's too little money to send the children to school. When you stand up for your rights, become too talkative, they find ways to frustrate you so you will leave.

'If Kaleya expand their smallholder scheme, I will apply. I'd use the money to send the children to school. I would build two shelters for my children – at the moment I don't have a shelter, so if I die, there is nothing for them. The little money I get all goes on food.'

On the positive side:

- In some mills, such as Marromeu in Mozambique, people can get a permanent contract after two years of seasonal contracts.
- Foreign investors such as Tongaat and Illovo invest in the education of local personnel, in order to decrease their dependence on expatriates. Rural development organisations such as ORAM in Mozambique complain that this applies only to higher positions, with the aim of retaining skilled staff, and that not enough is being done to provide opportunities for unskilled employees. Illovo, however, declares that its annual \$45,000 budget for training is spent across its total spectrum of employees.
- Many of the larger companies invest in basic social services around their estates. Zambia Sugar supports four primary schools, four clinics, and a 25-bed hospital. Maragra estate in Mozambique provides free housing and free water to permanent employees, while medical care is free for both permanent and seasonal workers, though not their families. The company invests in schools and a malaria control programme, and maintains a social security fund.

Box 6: Case study - 'I feel that as the mill grows so will I grow'

Celestino Londe is 26 years old and a graduate trainee at Xinavane sugar factory in Maputo province, Mozambique, where he has worked for two years. Celestino is training to take over a job in chemical engineering from a white South African as part of the company's efforts to have the operation run wholly by Mozambicans by 2010. Celestino is bright and ambitious and the company offers him a good future. He currently earns 11m meticals (\$478) before tax, 9m (\$391) after tax, per month.

'I started here as a trainee while I was finishing my studies. I was studying chemical engineering. When I came here it was part of my course – compulsory work experience. They liked me and they liked the way I worked so they asked me to come back. I was lucky.

'The best thing about my job is that working here allows me to put everything I learnt at university into practice. I am always looking to improve. In five years' time, I hope that I will be doing more and better. I feel that as the mill grows so will I grow. As the mill gets bigger it will need us to work more – I am ready for that.

'My wages are pretty good, still trainee rates. It is not as much as I would like and it doesn't meet all my needs, but it helps. My mother is still alive and my older brothers used to support her. Now I too give some money – every six or 12 months.

'I have a girlfriend and a son who is nine months old. They live in Maputo. I get to see them every two weeks or so. The cost of supporting a family and myself here, as well as the cost of travel – it all adds up. There is not much money left over at the end. But I know I am lucky really.'

Outgrower schemes

Generally sugar cane is cultivated on large estates, but in some countries outgrower schemes exist. In Mozambique, seven large landowners supply sugar for processing in the sugar estate mills on an outgrower basis. There is also a relatively new smallholders scheme, involving 65 families linked to the Xinavane plantation in Maputo province. On average, these families cultivate less than two hectares each.

In Zambia, a number of commercial white-owned farms supply sugar for processing by Zambia Sugar. In addition, the Kaleya Smallholder Scheme was established in the mid-1980s to enable indigenous Zambians to produce cane for the sugar mill. Family members work alongside hired labour on the plots. Each smallholder employs on average two to three semi-permanent workers year-round to handle irrigation. They are also likely to hire up to ten casual workers for three to four days at a time to carry out weeding at the height of the rainy season. Under the scheme, smallholders are provided with

irrigation, haulage, and other services, as well as housing units with tap water and decent health clinics.

To date, these smallholder programmes have produced promising results in terms of improving the living standards of their members. Net incomes in Mozambique are around \$1,000 per year, and exceed \$2,000 per year in Zambia. Despite this relative success, in Zambia there is currently no concrete plan to increase production by outgrowers. In Mozambique, the Maragra and Xinavane estates plan to increase the number of smallholders, and it is estimated that the share of outgrowers in total sugar production will increase from 12 per cent in 2002 to 17 per cent in 2006.²⁰

While outgrower schemes have been relatively successful, some major concerns exist:

- Depending on the nature of the scheme, a degree of risk is passed from the sugar estate owners to small growers. In Mozambique, which has high levels of climatic variation and flood risk, this can be highly problematic. A failure of production inevitably leads to high levels of indebtedness.
- To date, there has been no government regulation of smallholder schemes. As a result, smallholders are totally dependent on the sugar estates to set fair rules and prices. The cane payment system appears to be heavily weighted towards the millers.
- The employees of sharecroppers are worse off than equivalent workers on the large estates. Overall data are lacking, but evidence suggests that salaries paid to workers in the outgrower schemes are much lower, labour conditions are worse, and access to schools and medical care is limited.

Box 7: Case study - 'The children of smallholders, their parents have money and are able to send them to secondary school'

Patrick Machokwende is a smallholder and Vice-Chairman of Kaleyia Smallholders Farmers Association in Mazabuka, Zambia. He lives in a brick house with electricity and tap water outside. Patrick has built a separate house for his children to sleep in – other children from the village also sleep there. The children seem well-nourished and are well-dressed. In the field behind the houses, each family has a plot of land, half a hectare, on which are planted onions, spring onion, tomatoes and maize.

'This smallholder scheme started in 1984 and I was one of the first smallholders – we did not have to pay to join. We were given four hectares each to grow cane and then half a hectare where we could grow maize for ourselves and build a home. When we arrived, this land was just bush – the first test for us was to cut it down. In 1986 we started building good homes – now some of us have good houses. And we are building not with loans but with the money we have made from sugar cane sales.

'Most smallholders have six or seven hectares and make around 12 to 15m kwacha a year (\$2,500–\$3,100) after all the deductions have been made. Many people are waiting to join this scheme because it pays well. The difference for us is that for the children of smallholders, their parents have money and are able to send them to secondary school. But for children in the rural areas, most children don't go beyond grade 7 or 8 even if they are bright. With us here, we can manage for all up to grade 12 (age 18). Some even go on to university.'

Women in the sugar industry

Women employed in low-paid seasonal jobs are the most vulnerable workers in the sugar industry. In Mozambique, women comprise 14 per cent of the sugar workforce. Most of them are employed on seasonal contracts, under which they are paid on a piece rate basis rather than receiving proper salaries, and they do not benefit from all the social services the company offers. Most female workers are involved in the transportation of sugar, but some of them do heavy field work, sometimes with a baby on their back. Female-headed households that combine seasonal work with subsistence farming have particularly heavy workloads.

In Zambia, female employment is most concentrated in seasonal jobs that involve weeding and applying fertiliser, where women constitute around 65 per cent of employees. These jobs are physically demanding and among the lowest-paid, especially where the women are working for smallholders. Women are also involved in planting cane and packing the processed sugar.

The situation is far better for the small number of women who participate in the Kaleyia sugar cane smallholder scheme. Of the 161 smallholders in the scheme, 38 are women, many of whom inherited

their plots when their fathers died. One of the female smallholders, Agnes Maseko, is typical. She has a well-furnished house, built of cement, with a cooker, TV, and a fridge of cold soft drinks. Agnes's own daughters are grown up and she now supports more than ten young HIV orphans. For Agnes, involvement in the production of sugar has brought a quality of life far higher than she would otherwise be likely to achieve in the Mazabuka region.

Improving the situation of female sugar workers demands the critical involvement of trade unions and labour rights NGOs. It also requires an active policy by the sugar companies to address their needs, for example by improving contracts for seasonal workers. National governments also have a responsibility to enforce international labour standards in the sugar sector.

Wider economic linkages

In both Mozambique and Zambia, the sugar industry has a clear positive impact on the immediate community surrounding the sugar estates and mills. This is particularly noticeable in terms of sugar income stimulating demand for local goods and services. In Mazabuka in Zambia (where Zambia Sugar is based) and in the areas around the rehabilitated estates in Mozambique, the quality of infrastructure and social services provided generally exceeds those available in comparable non-sugar growing areas.

There is some limited evidence of sugar estates sourcing basic supplies locally, although these backward linkages are not well-developed. Some sugar companies are concerned about the reliability of local suppliers and there is generally little short-term potential for local companies to supply equipment or technical services to the sugar industry. The challenge is for sugar companies to build partnerships with local and national suppliers in order to encourage entrepreneurship and deepen the links between the sugar industry and the local economy.

The sugar industry makes a contribution to government tax revenues although this is limited because most large-scale investments in sugar benefit from generous tax reductions or exemptions, at least for an initial period. Sugar companies may be required to pay local authority taxes, which can benefit the immediate community. Zambia Sugar and all commercial sugar growers in Mazabuka pay a levy to the town council, a proportion of which is spent on municipal needs, such as street lighting and the building and maintenance of roads.

Environmental concerns

According to the WWF, sugar production and processing is generally associated with a number of negative effects on the environment. The intensive use of water, the conversion of natural habitats, the use of agro-chemicals, discharge and run-off of polluted effluent from both cane fields and refineries, and pollution of the air can result in the erosion and degradation of soils, declines in biodiversity, and damage to downstream eco-systems. This has a direct impact on wildlife but also ultimately has a negative effect on the people living in sugar-producing areas, as well as those downstream of them.

Sugar cane is generally highly dependent on irrigation, and has major impacts on some of the world's most sensitive rivers. Twenty-five per cent of irrigated land within the Zambezi river basin in southern Africa is under sugar. Zambia, Mozambique, and Zimbabwe alone account for 93,000 hectares of irrigated cane and, by 2025, it is expected that the region will be using more than 60 per cent of its total water supply for irrigation.

Both in Zambia and Mozambique, there seems to be ample opportunity for increased efficiency in water use. The vast majority of land is now under flood irrigation, a technique that involves high water use and leads to high losses of fertiliser from cane fields resulting in pollution. Drip irrigation, a much more expensive but less labour-intensive technique, could radically reduce water and fertiliser losses, save money, and reduce pollution. Ironically, this would have a negative effect on employment opportunities, which highlights the need for a balanced approach.

In terms of refining, the damage caused by the release of mill wastes can be devastating for rivers. As mill waste decomposes, it can use up all the available oxygen in rivers and kill fish populations having obvious environmental impacts and also knock-on effects on livelihoods dependent on fisheries.

A wide range of better management practices (BMPs) are available to address many of the environmental impacts of sugar. Efficient irrigation systems can reduce water demands, fertiliser use can be matched to crop requirements, agro-chemical use can be rationalised using techniques such as biological control and integrated pest management, and in cane cultivation mulching can increase soil fertility and reduce water erosion and the risk of soil acidification.

During harvesting, improved practices such as cutting without pre-burning can help reduce air pollution and changes to cane milling can reduce effluents. Finally, using by-products of sugar production as soil conditioners and fertilisers, as animal feed, and for production of paper, alcohol, energy or bio-fuel can improve the overall sustainability of the industry.

4 How EU sugar reform can deliver on poverty reduction

European policy-makers will determine the fate of thousands of sugar workers and producers in Mozambique and Zambia, and many other poor countries, in the coming months. Yet developing country concerns have so far been totally marginalised in the sugar reform debate, for different reasons. Some decision-makers take the view that the sugar sectors of the world's poorest countries are already doomed in what will become an increasingly competitive market. Others – notably those close to the domestic sugar lobby – argue that sugar production is bad for poverty reduction.

Evidence set out in this briefing paper challenges both of these assessments. Both Mozambique and Zambia have the potential to develop long-term sustainable sugar industries that can survive in a more competitive environment with lower prices. That potential could be strengthened by a supportive reform in Europe, combined with domestic reforms to improve the situation of sugar workers and smallholder producers, particularly through the enforcement of international labour standards and the encouragement of environmentally sustainable production practices. The problem is that current EU reform plans are likely to hurt rather than help many poor sugar-producing countries.

EU reform proposals fall short

EU sugar reform is long overdue and pressures for change have escalated over recent years and months. Internally, the European Commission and some EU member states are concerned that existing policies are out of step with changes in overall EU agricultural policy.

Externally, the Doha Round of trade negotiations in the World Trade Organisation (WTO) aims to reduce trade-distorting domestic agricultural support and tariffs, and to agree an end date for eliminating export subsidies, which radically threatens the three pillars of the EU sugar regime (see Annex 1). Moreover, the EBA initiative, which guarantees LDCs unlimited access to the European market from 2009, will undermine the quota system, while increased imports could have a significant impact on the price support system. In the background, a WTO legal case won by Brazil, Thailand, and Australia against EU sugar policies has put a time-bomb under the regime (see Box 8).

Box 8: WTO rules against EU sugar dumping²¹

On 15 October 2004, the EU lost a WTO dispute brought by Brazil, Thailand, and Australia against its sugar policies. The dispute panel ruled illegal the export of around 2.7m tonnes of surplus EU production – so-called ‘C’ sugar – which was found to be cross-subsidised, despite claims to the contrary by the EU.²² The EU has disingenuously claimed that the WTO ruling represents a threat to its preferential sugar import regime.²³ This is not true. The WTO ruling does not affect the EU’s right to import sugar on preferential terms; it only affects its right to export on subsidised terms an amount equivalent to the value of its preferential imports, in excess of its WTO reduction commitments. The sugar panel ruling specifically states that the EU should implement reforms in a way that protects the interests of those countries already benefiting from preferential access.

The EU is likely to appeal the ruling, which could delay the final outcome until early in 2005. Assuming that the ruling is not overturned on appeal, the EU will have to change its sugar policies to reflect the findings of the WTO panel, or face potential trade sanctions by Brazil, Thailand, and Australia. Current EC reform proposals singularly fail to address the central finding against ‘C’ sugar exports, and this adds considerably to existing pressure for EU sugar reform.

In light of these pressures for reform, the EC has proposed the following key elements for an EU reform strategy:²⁴

- A significant cut of one-third in the sugar support price over three years, from the current guaranteed level of € 632/tonne to €421/tonne in 2007-2008.
- A reduction in domestic production quotas of 2.8m tonnes over four years.
- Partial compensation (equivalent to 60 per cent of estimated income losses) for EU producers, in the form of a direct decoupled payment.
- Restructuring of the EU sugar sector, by making quotas transferable between member states. In this way, production will become concentrated in the most efficient – and prosperous – areas.

These proposals will fail on three counts. First, they fail to address the concerns of developing countries. They ignore the LDCs’ proposal to amend the EBA initiative to give them adequate time to build their sugar industries, and fail to offer increased aid and technical assistance to help LDCs develop their supply capacity and improve their competitiveness on a sustainable basis. This seriously limits the possibilities for LDCs to secure investment in their sugar sector, which could make a significant contribution to poverty reduction and improving environmental practices. There are no concrete proposals to assist ACP countries to adjust to EU reforms (see Box 9).

Second, the EU will remain a major subsidising exporter: the proposals will not end all directly subsidised exports, let alone all indirectly subsidised exports. As a result, sugar will remain a source of dispute at the WTO. Third, the distribution of benefits within Europe will be further concentrated in the favour of large-scale sugar producers and processors, at the cost of small-scale farmers in the least prosperous areas.

Box 9: Action needed for the ACP countries

EC reform proposals to cut prices by one-third would have a devastating impact on some ACP sugar industries. Direct job losses could be as high as 32,000 in Jamaica and 20,000 in Trinidad, while Jamaica would lose €73m a year in foreign exchange earnings, Belize €36m, and Trinidad €30m.²⁵ While these countries are not among the poorest in the world, many of them do have large numbers of very poor people.²⁶ Yet, in contrast to clear plans to pay compensation to EU sugar producers for lower prices, the EU has been very vague about how ACP countries will be helped to adjust to the new regime.

The fear is that any action will be limited to providing adjustment assistance from the development budget, potentially at the expense of other development priorities. Also, the proposed timetable for reform does not include an adequate transition period for ACP countries to utilise proposed EU adjustment assistance to improve the efficiency of their sugar industries before the EU policy changes are implemented. The EU should engage in a structured dialogue with the ACP countries now to agree how to address these concerns and to develop a package of country-specific trade and aid measures. Country-level analyses should be undertaken in association with local sugar associations and national governments, with the aim of identifying specific adverse effects and effective remedial measures that could be supported by the EU. Possibilities for exploration include:

- Using the Cotonou Agreement Investment Facility risk capital loans at concessional rates to reduce the debt service burden for smallholder sugar producers, since they will face a loss of earnings per tonne on sugar produced, and to finance capital investments in upstream value-added processing of sugar.
- Extending EU support to ensure the continuation of social service provisions formerly financed by sugar companies from the additional revenues resulting from the EU sugar access arrangements for ACP countries.
- Supporting the establishment of a special unit in the local sugar association or government, as appropriate, dedicated to helping to identify and address the adverse consequences of EU sugar reform.
- Extending budgetary support to ACP governments, linked to the decline in taxation revenue resulting from revenue losses on exports of sugar after EU reform.
- Removing supplementary duties on the sugar content of EU imports of value-added products from developing countries, so as to encourage the development of value-added sugar processing.

- Providing compensation in the form of a quota buy-back scheme for any ACP countries wishing to transfer their quota back to the EU in return for a guaranteed flow of development financing. This option may be attractive to very high-cost producers where lower EU prices may compromise the viability of their sugar industries.
- Helping the industry to invest in better environmental practices to ensure that it implements existing environmental legislation and addresses the range of environmental impacts from growing and processing sugar.

Some of the above measures could be supported using existing instruments of the European Development Fund. Others will require the creation of new instruments to overcome the shortcomings of EDF procedures. Crucially, the EU must make a political commitment to ensure the timely disbursement of funds, since delays have seriously undermined previous efforts to extend adjustment assistance to ACP producers of rum and bananas.

EU member states have started to discuss the Commission's reform proposals. Instead of considering practical measures to combine sensible reform at home with Europe's responsibilities towards developing countries, the current EU sugar reform debate is marked by protagonists adopting ideological or self-interested positions. Free market-oriented member states, such as Denmark and the UK, want an early transition to an open market. Meanwhile a majority of member states, reflecting the demands of the domestic sugar lobby, want limited price cuts, compensation and the continued right to produce. The concerns of developing countries have been completely marginalised.

This makes a mockery of EU commitments to poverty reduction and sustainable development. EU member states must urgently inject a strong development dimension into the debate and press the new Commissioners to amend existing reform proposals in favour of the world's poorest countries and people.

Oxfam policy recommendations

Oxfam calls on EU member states to place the needs of the world's poorest countries and people at the centre of the debate on EU sugar reform. Existing proposals fall far short of what is needed to maximise the development benefits of EU sugar reform. The direction of reform must be reoriented in line with Europe's international commitments, with the key objectives of:

- Deeper cuts in Europe's own sugar production to facilitate an increase in imports from LDCs and to end all EU sugar exports.
- Shallower price cuts and a longer implementation period than those proposed by the Commission.
- Accelerating and expanding market access for LDCs at remunerative prices.
- Assisting LDCs to develop their supply capacity and improve their competitiveness through the provision of targeted aid and technical assistance.
- Providing an effective package of measures, including compensation, to help ACP suppliers adjust to EU sugar reforms.
- Ending all direct and indirect subsidies for export dumping.
- Promoting a socially and environmentally sustainable sugar industry, both in the EU and globally.

EU sugar reforms must include measures to help to secure increased investment in those LDCs and ACP countries that have long-term potential to develop sustainable sugar industries, such as Mozambique and Zambia. This means responding positively to the LDC proposal on trade and providing targeted aid and technical assistance to help these countries build their supply capacity and improve their competitiveness. Oxfam considers it inevitable that price cuts will take place as part of the reform process²⁷, but argues for adjustments through deeper quota cuts and lower price cuts than those proposed by the European Commission.

For high-cost ACP sugar suppliers that will lose out under any EU sugar reform, an effective package of measures, including compensation, must be developed in consultation with the key stakeholders in each country to help them adjust. Of critical importance is a political commitment to ensure that funds provided either for compensation or diversification are delivered on time.

Specifically, the EU should:

- Cut the EU quota by around 5.2m tonnes, or one-third, to facilitate an increase in imports from LDCs, end all exports, and realign domestic production with consumption.
- Impose an immediate prohibition on non-quota exports.
- Eliminate all direct and indirect export subsidies with immediate effect.
- Increase support for the sustainable development of sugar industries in individual LDCs and ACP countries with the potential to survive in a context of lower prices.
- Devise a meaningful compensation package in consultation with ACP suppliers, plus country-specific measures to address the adverse impacts of EU sugar reform, for example by supporting diversification efforts.
- Create incentives for developing country sugar exporters to improve labour standards in the industry, by allocating increased import quotas to those countries that comply with ILO core labour standards.

National governments in sugar-producing developing countries should:

- Integrate sustainable sugar development strategies into national poverty reduction plans.
- Develop and enforce strong and effective labour laws in line with international labour standards.
- Develop pricing policies that guarantee fair and remunerative prices for sugar outgrower schemes.
- Ensure the enforcement of current environmental legislation and create incentives for sugar companies to go further in adopting better management practices.

Sugar companies should:

- Take full responsibility for the welfare of people working on their estates and in their supply chains, e.g. where they source from commercial farms and smallholder schemes.
- Improve working conditions for women and seasonal workers, and extend social benefits to seasonal workers.
- Increase investment in smallholder outgrower schemes so as to improve their efficiency and the benefits for members and their employees.

- Implement mechanisms to reduce the burden of risk carried by smallholder outgrower scheme members, for example, to deal with natural disasters, e.g. flooding.
- Foster development of local communities by promoting linkages into the local economy.
- Facilitate the formation of trade unions and allow them to operate freely.
- Invest in better environmental practices.

ANNEX 1: Overview of the EU sugar regime

Three pillars

The EU sugar regime rests on three pillars: high guaranteed prices, import protection, and export subsidies.

Guaranteed prices

The EU guarantees minimum domestic prices to farmers and processors far above world market prices. In order to prevent production from booming, these prices are only paid for a limited amount of production. This quota is determined every year by the European Commission and is set at a level roughly equal to the consumption of sugar in Europe.

The guaranteed domestic prices are now some three or four times above world market levels. While world prices are at an all-time low of €160/tonne, currently the price that European consumers and food industry pay is a minimum of €632/tonne.

The total production quota is set at around 17.4m tonnes for the 25 members of the EU. This quota consists of a so-called A quota, which equals EU consumption (14.7m tonnes), and a B quota (2.7m tonnes). This amount presents a structural surplus that must be disposed of outside the EU.

Import restrictions

The EU needs high import barriers to prevent its market being flooded by cheaper sugar. In addition to a fixed tariff, the EU deploys a permanent 'special safeguard' that increases as world prices fall. Total current import duties create a tariff, equivalent to around 324 per cent, providing a watertight system of protection. Even with world prices at extremely low levels, it is impossible for other exporters to enter the EU market, apart from those countries that receive preferential treatment.

Export subsidies

The structural surplus built into the EU quota system must be sold outside the EU, but is extremely expensive compared with sugar from low-cost producers. Export subsidies, paid to processors and traders, bridge the wide gap between domestic and world prices. At present, the EU pays around €525/tonne in export subsidies on quota

sugar. In other words, every €1 in export sales of sugar costs the EU €3.30 in export subsidies.

'C' sugar and preferential access

Two major factors add to the complexity of the sugar regime and contribute to even greater impacts on the rest of the world: the presence of preferential import agreements and the production of non-quota sugar.

Preferential access agreements

The EU imports just under 2m tonnes of sugar under a number of preferential agreements, of which the Sugar Protocol and the Everything But Arms (EBA) initiative are the most important.

Under the Sugar Protocol, an annexe to the Cotonou Agreement with former EU colonies, 17 African, Caribbean and Pacific (ACP) countries have the right to export up to 1.6m tonnes of sugar to the EU at guaranteed prices and on a duty-free basis.

With the EBA initiative, introduced in 2001, the EU promised quota- and duty-free access to the European market for all least developed countries (LDCs), for all products except arms. However, as a result of intensive lobbying by the sugar industry, full access was delayed for sugar, for which duty-free access will not begin until 2009. Until that time, a small group of LDCs has been given a small quota, which is being increased by 15 per cent every year and is to reach 197,355 tonnes by 2009. After that date import restriction will be withdrawn.

The import of preferential sugar adds to the already overflowing market. An amount equivalent to the ACP imports is therefore re-exported. As with the expensive domestic sugar, export subsidies are used to bridge the gap between the high guaranteed price paid for ACP sugar and the world market price. Budget costs for the export of the ACP-equivalent stand at €776m, bringing the total cost of sugar exports to a staggering €1.27bn.

Non-quota sugar

Many farmers produce sugar in excess of their attributed quota. For this non-quota sugar they receive no support. The extra quantities must either be stored and used as part of next year's quota, or exported without export refunds. For exported non-quota sugar, so-called 'C' sugar, farmers consequently receive world market prices.

In some competitive production regions, 'C' sugar production has increased considerably. Starting from nil at the start of the current sugar regime, it now amounts to 2.6m tonnes, or 20 per cent of quota production.

Total exports, including surplus quota sugar, 'C' sugar, and the export of an equivalent of preferential imports, now stand at 5.2m tonnes, making the EU the second largest exporter in the world, and the leading exporter of refined sugar.

Notes

¹ This is a price that includes the costs of freight to Europe.

² Watkins, K. (2004) describes how Europe's most prosperous agricultural regions are among the biggest beneficiaries of sugar subsidies, and the biggest welfare transfers are directed towards corporate sugar processors such as Beghin Say, Südzucker and British Sugar. Meanwhile, many small-scale and family farms are being squeezed out of business.

³ Watkins (2004) pp. 35-38. These estimates were based on projected estimates of sugar exports for 2004.

⁴ LDCs (2004).

⁵ B. Borrell and L. Hubbard (2000). Clearly, the expansion of Brazilian sugar exports has also had seriously negative effects on world sugar prices, and longer-term price developments depend largely on Brazil's future export policy.

⁶ Cheesman, O.D. (2005) 'Environmental Impacts of Sugar Production: the Cultivation and Processing of Sugarcane and Sugar Beet'. CAB International, Wallingford, UK.

⁷ Figures calculated on the basis of Purchasing Power Parity (PPP) exchange rates are used in international comparisons of standards of living. They calculate the relative value of currencies based on what those currencies will buy in their nation of origin. Typically, the prices of many goods will be considered, and weighted according to their importance in the economy.

⁸ This was caused by an unexpected high level of cheap sugar imports into Mozambique from Zimbabwe, from producers seeking to earn foreign currency, which reduced the quantity that domestic producers were able to sell on domestic markets.

⁹ UN Integrated Regional Information Network (IRIN) (24th August, 2004) 'HIV/AIDS threatening subsistence agriculture', www.irinnews.org (last checked by the author October 2004).

¹⁰ UNAIDS/WHO (2004) 'Zambia Epidemiological Fact Sheet – 2004 Update', [Hwww.unaids.org](http://www.unaids.org)H (last checked by the author October 2004)

¹¹ UNAIDS (2004) 'Facing the Future Together', Report of the United Nations Secretary-General's Task Force on Women, Girls and HIV/AIDS in Southern Africa, [Hwww.unaids.org](http://www.unaids.org)H (last checked by the author October 2004)

¹² The surcharge is calculated to ensure that imports do not enter the market at prices below an internal reference price. This reference price, currently \$385/tonne, is set each year at a level intended to secure adequate profits

for the domestic sugar industry, without unduly hurting the interests of consumers.

¹³ This is a price that includes the costs of freight to Europe.

¹⁴ Zambia has access to the EU market under both the Everything But Arms initiative (a current quota of around 10,000 tonnes, rising 15 per cent each year until 2009) and the Special Preferential Sugar Arrangement, which gives it a quota of around 12,000 tonnes in 2004. However, the Special Preferential Sugar Arrangement is being decreased by 15 per cent a year and handed over as EBA quota to the LDCs. The price received per tonne under both arrangements is €497. Zambia was also allocated a small quota under the EU Sugar Protocol (400 tonnes in 2002 from Barbados, which cannot fill its quota allocation), and hopes to obtain over 7,000 tonnes of Protocol quota in 2004. Mozambique currently has access to Europe only under the EBA, but is hoping to obtain around 6,000 tonnes of Sugar Protocol quota from Barbados.

¹⁵ Interview with John Moulton, Managing Director of Zambia Sugar, August 2004.

¹⁶ National Sugar Institute of Mozambique, 2003.

¹⁷ These estimates are based on the EU increasing its quota for LDCs to 2.7m tonnes at current prices, and Zambia's exports increasing from 23,000 tonnes today to around 243,000 tonnes by 2007.

¹⁸ Ministry of Planning and Finance, 2003.

¹⁹ ICFTU, WCL and ETUC (2004).

²⁰ Interview with INA.

²¹ See Oxfam briefing note 'An End to EU Sugar Dumping' (August 2004) for more detailed information.

²² The panel found that the EU is only able to export non-quota 'C' sugar at prices below the average total costs of production because the support prices for quota sugar are sufficient to cover the fixed costs of production, while world prices cover only their marginal costs.

²³ On the grounds that the panel ruled that the subsidised export of 1.6m tonnes of sugar, equivalent to total imports of sugar from the ACP countries and India, has to be included when calculating the total allowable quantity of EU subsidised sugar exports under WTO rules.

²⁴ European Commission (2004) 'Accomplishing a Sustainable Agricultural Model for Europe through the Reformed CAP – Sugar Sector Reform', COM(2004) 499 final of 14 July 2004.

²⁵ LMC International and Oxford Policy Management (2003).

²⁶ In Guyana 35 per cent of the population live below the national poverty line, and Swaziland is ranked only one place above Bangladesh, an LDC, in the UN's Human Development Index of 2003.

²⁷ This is because of the likely outcome of the current World Trade Organisation talks. Even if the EU designates sugar as a 'sensitive product'

in the current negotiations, which means it would be able to maintain a higher degree of protection for sugar than for other products, the EU will still have to allow for an expansion of imports under a larger tariff rate quota, which will inevitably place a downward pressure on prices.

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WWF, the global environment network, is working with Oxfam to call for the reform of Europe's sugar regime to ensure a more sustainable global sugar trade which raises environmental standards and helps to alleviate poverty. This research shows that it is possible to use trade and aid to achieve that aim. The European Union and Member State governments have given their commitment to working for sustainable development. The reform of the sugar regime must prioritise poverty alleviation and protection for the global environment if that commitment is to be realised.

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