Options to Improve Access for Mozambican Sugar on the Swiss Market

By Richard Gerster & Roland Jenni,
Gerster Consulting, Richterswil, Switzerland[1]

This briefing was produced on behalf of
Swiss Development Cooperation (SDC)
and the
National Sugar Institute in Maputo (Mozambique)

December 2002

Summary

Switzerland is committed to trade liberalisation. In its development cooperation programme with Mozambique, Switzerland explicitly mentions the sugar sector as an area of more coherent policies in the future. In line with this orientation, it is recommended that the transition to preferential zero tariffs in sugar for the least developed countries (LDCs) should be speeded up. Removal of custom duties should be finalised by 2004. Moreover, the zero tariff policy should include and equally refund and later on abolish the storage fee. Two options, namely to negotiate a Free Trade Agreement or to establish a Swiss Sugar Protocol along the model of the European Union, are rejected as non-appropriate and over-ambitious, however. As a complement to the proposed liberalisation (zero-tariffs) of market access for LDCs, private efforts merit support to expand and exploit market niches of organic sugar ("bio") and fair trade sugar ("Max Havelaar"). To enhance the competitiveness of Mozambican sugar exports on the Swiss market in general and in particular to facilitate supply of organic and fair trade sugar by Mozambican producers, it is recommended that the government consider targeted and transitional technical or financial support to Mozambique within the framework of the on-going programme of cooperation. Switzerland, therefore, has a number of valuable options to enhance and contribute to the growth and prosperity of the Mozambican sugar sector.

[1] We would like to thank collaborators of the Federal Office for Agriculture (Urs Zbinden, Fritz Brand, Christian Häberli), the State Secretariat for Economic Affairs (Hans-Peter Egler, Daniel Birchmeier, Martin Haefliger, Bernhard Herold), the sugar factories (Hans-Rudolf Fankhauser, Emil Seiler), TSL (Alex Burri), COOP (Kathrin Rapp, Peter Schweizer, Stefan Kausch), Max Havelaar Foundation (Andreas Leisinger), and the National Sugar Institute of Mozambique (Anna Locke) for their kind informal support. The responsibility for any errors and the proposals remains, of course, with the authors. Comments are welcome: richard.gerster@gersterconsulting.ch.

1 Background

Mozambique is one of the key partner countries for Swiss Development Cooperation. The Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (seco) have a joint programme of cooperation with the Government of Mozambique at various levels, with organisations of civil society and with the private sector as partners. Rural development is one of the domains in the cooperation programme but so far does not include export crops such as sugar. Against this background, the Country Programme 2002-2006 explicitly mentions coherence of policies as an area to be improved:

"The challenge of coherence is to contribute to maintaining and creating space for domestically appropriate policies in Mozambique by linking in a systematic way the bilateral co-operation programme to (1) positions and decisions taken by Switzerland in multilateral institutions (UN-family, Bretton Woods Institutions, WTO), and (2) trade, investment and selected other (e.g. agricultural) policies followed by Switzerland. … Positive linkages (are) to be created in selected policy fields like agriculture. Sugar production has a high relevance for Mozambican rural employment. Switzerland is a net importer of sugar. The question should be examined how sugar imports from Least Developed Countries in general and Mozambique in particular could enjoy preferential treatment (beyond the existing and largely ineffective system of preferential tariffs) in order to stimulate 'fair trade' sugar exports to Switzerland."

Seco has identified six priority commodities within the framework of its efforts to support developing and transition countries. Sugar is one of the six priorities. These priority commodities are of particular importance in seco's key countries of cooperation. Again, Mozambique is one of seco's priority partner countries.

A briefing[2] has been produced on the Swiss sugar protection scheme on behalf the National Sugar Institute in Maputo (Mozambique). This information serves as the basis for the sugar authorities in Mozambique to examine the potential of sugar exports to Switzerland from their own perspective. Complementary to the Mozambican analysis, a Swiss effort is required to identify avenues through which the prospects for Mozambican sugar exports to Switzerland can be improved. That is the purpose of this briefing. Later on, the Mozambican and the Swiss analyses can, it is hoped, be matched in order to identify a common follow-up, be it in Switzerland and/or Mozambique.

2 Principles

As much processing as possible should take place in the exporting developing country. From a development policy point of view, imports of refined sugar are the better option than raw sugar – if there is a choice.

[2] Gerster Richard/Jenni Roland, Sugar Protection in Switzerland, December 2002

The burden of a potential price increase should be borne by the Swiss consumer rather than the taxpayer – if there is a choice.

Eventual private initiatives in the market niches of organic sugar and/or fair trade should rely on established labels that are accepted in the Swiss market.

3 Improvement of Preferential Tariffs for LDCs

3.1 Custom duties

Present situation: Refined sugar and raw sugar are taxed at CHF 47 per 100 kg. Nevertheless, there are two exceptions for the benefit of developing countries. Firstly, there is a zero tariff quota of 7000 t raw cane sugar per year allocated to all developing countries. This allocation is not entirely used. In 2001, the total raw cane sugar import from developing countries reached approximately 5'500 t per year. Secondly, only Least Developed Countries[3] (LDCs) benefit from a 50% tariff reduction on all kinds of sugar imports, which means duties of CHF 23.50 per 100 kg on refined sugar and raw cane sugar beyond the quota of 7000 t. Both preferential tariffs are autonomous measures by Switzerland, the second one came into force on 1 January 2002 following the "Everything But Arms" (EBA) initiative of the European Union (EU).

Perspectives: Zero-duties for LDCs are the declared goal of the Swiss government. According to the official statements made so far, implementation can be expected in 2007/8. The Government did not fix a time frame but declared zero tariffs subject to parliamentary consent. When arriving at zero tariffs for sugar imports from LDCs, which also includes their raw sugar imports, the Swiss authorities plan to maintain the duty-free raw sugar quota for developing countries (currently 7000 t). These Swiss steps compare to the European Union's "Everything But Arms" initiative, which set a zero tariff target regarding sugar of 2008/9.

A second step is scheduled for 1 January 2004, with a reduction to LDCs (only) of about another one third across all agricultural products[4]. The Swiss preferential tariff ordinance for developing countries will be amended accordingly. At the same time the future agenda will be presented to the government: the seco/FOAG will report on past experience with preferential tariffs to LDCs and take into consideration the on-going WTO negotiations. The federal decree on preferential tariffs will formally end on 28 February 2007 and, during the year 2006, parliament will have to take a decision on how the Swiss GSP, including sugar, shall develop in future.

3.2 Storage fee

Present situation: The Federation of Swiss Food Importers ("*Treuhandstelle der Schweizerischen Lebensmittelimporteure",* TSL) is committed to maintaining sugar stocks for emergencies, financed by a special additional compulsory storage fee

[3] See Annex 1
[4] This could translate into a reduction of the sugar tariff by 50%.

("*Pflichtlagerhaltungsbeitrag"*) on all imports of sugar. Since 1 October 2002 the storage fee has been reduced from CHF 21 to CHF 14 per 100 kg on all imports of sugar. The reduction by one third mirrors the reduced volume of stocks required to cover four months of imports (instead of six months), hence also a reduction in stocks by one third. On the whole, border protection has not been reduced and stays at CHF 61, which is the WTO Bound Rate, as custom duties were raised from CHF 40 to 47 to compensate for the lower storage fees. As indicated above, in relation to the WTO, the storage fee is part of Swiss notified and consolidated tariff rates.

LDCs have to pay the full amount of the storage fee and do not enjoy any preferential treatment as is the case with the 50% reduction of custom duties. The full amount of CHF 14 storage fees also has to be paid on the zero tariff quota of 7000 t raw sugar from developing countries..

Perspectives: For the time being, there is no indication that the Swiss authorities would consider the extension of preferential treatment for LDCs on custom duties and storage fees. To abolish the storage fee on sugar imports from LDCs would require a change in the "Swiss Decree on the Accordance of Preferential Tariffs in favour of Developing Countries"[5], including approval by parliament. Such an effort may only be an option when this current decree expires; it is due for renewal on 28 February 2007. However, article 1.2[6] of the decree allows a refund on the storage fee to importing companies for imports from LDCs, if the government so decides and financing is secured. Such a refund would equally improve the competitiveness of LDC exports as would abolishing the storage fee. The decree's reference to agreed credit lines does not answer the key question as to which budget would finance such reimbursements. This may become a major issue among the different parts of the administration.

As the storage fee is part of the WTO bound tariff rate, Switzerland will face a problem when introducing zero tariffs for LDCs. It will not be seen as credible to maintain storage fees while claiming to introduce zero tariffs. Therefore, it will be in the best interests of Switzerland to find a solution that allows the refund or elimination of storage fees on sugar imports from LDCs.

3.3 Assessment

Swiss statements to enhance trade liberalisation and Swiss commitments to implement a coherent development policy are numerous, some of them mentioned in the above introduction. In that light, neither the present situation nor the schedule for improvements are satisfactory. Against the background of the firm Swiss intention to contribute to development through additional trade measures and looking at the urgent needs of Mozambique, we suggest it is necessary to

- Adopt zero tariffs for raw and refined sugar imports from LDCs in 2004 (instead of 2007).

---

[5] Of 4 October 1996, in force since 1 March 1997.
[6] Art. 1.2 "The Federal Council may decide that the storage fees paid on agricultural imports from the Least Developed Countries can be refunded to the importers. The reimbursement is paid in the framework of the approved credit lines" (unauthorized translation).

- Refund the storage fee of CHF 14 on sugar from LDCs, at the same time as the reduction of custom duties, and abolish the storage fee on sugar from LDCs on the occasion of renewing the decree.

The implementation of these options would give Switzerland a positive profile in the international community, liberalising access to the sugar market well ahead of the EU.

Instead of these clear-cut options, quite a number of intermediate steps could be thought of, like a zero tariff quota[7] of 50'000 t of sugar in 2004, or a 75% reduction of custom duties. Preferential tariff quotas to key partner countries in development cooperation who are net exporters of sugar could be considered. Such half-way options, however, will be perceived as lack of courage and as such will not enhance Switzerland's international profile.

4 Free Trade Agreement

Switzerland today has free trade agreements with a handful of countries in transition and advanced developing countries outside the Eastern Europe and Mediterranean region, including Mexico (in force since 1 July 2001), Singapore (in force since 1 January 2003). Concerning Chile, negotiations will be concluded soon. A kick-off round with South Africa has started and negotiations should take place in a short time. EFTA and MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) are discussing trade and economic co-operation. Two elements are key when Switzerland negotiates free trade agreements:

- Balanced interests of both parties, to get better market access to the partner country, are required to successfully negotiate a free trade agreement;
- A wider interest in free trade arrangements beyond Switzerland is required as the bilateral free trade agreements are usually established within the EFTA (European Free Trade Association) or in close cooperation with this institution.

In practice, free trade agreements are an instrument for Switzerland to maintain competitiveness and protect Swiss exporters given that the European Union (EU) has negotiated better market access for its own exporters.

In the case of Mozambique:

- Swiss interests in better access to the Mozambican market are limited and have not been advanced by Swiss exporters so far;
- There have not been any preparations within the EU nor the EFTA to establish a free trade agreement with Mozambique or any other countries of the SADC (Southern African Development Community), except South Africa (in discussion). Within a customs union in Southern Africa, it will be difficult to differentiate between LDCs and non-LDCs. Credible certificates of origin are required, or LDCs like Mozambique may have to graduate.

[7] Tariff rate quotas are compatible with the current Agreement on Agriculture of the World Trade Organisation (WTO).

Assessment: Based on these facts, we do not consider the conclusion of a free trade agreement between Switzerland and Mozambique a feasible option for the time being. But just as the EFTA envisages negotiating with MERCOSUR, obviously EFTA could proceed similarly with the SADC.

5 A Swiss Sugar Protocol

The ***European Union*** concluded a Sugar Protocol[8] with 19 countries of Africa, the Caribbean and the Pacific (ACP). The Sugar Protocol states that the European Community undertakes for an indefinite period to purchase and import, at guaranteed prices, specific quantities of raw or white cane sugar, which originate in the ACP states. ACP suppliers to the EU market enjoy many of the same rights and obligations as those in the European beet sugar industry. ACP states receive the same price as Community sugar producers. This is because the EU has always linked the guaranteed price for ACP raw cane sugar to the intervention price for EU produced raw sugar; and the guaranteed price of white sugar to the derived intervention price in the United Kingdom.

The Sugar Protocol is a governmental mechanism of fair trade and equal treatment of Northern and Southern farmers, despite its limitations. Looking at the Sugar Protocol from the beneficiaries' side, it is worth mentioning that the transfers effected during its existence since 1975 are substantial[9]. The example of Mauritius is outstanding, where the added value of the increased sugar prices considerably contributed to its successful development path. Mozambique did not benefit from preferential access to the EU market under the Sugar Protocol. In 2002/3, however, Mozambique's sugar industry is scheduled to ship 8500 t of raw sugar to the EU under the "Everything But Arms" (EBA) initiative[10].

Is the EU's Sugar Protocol a ***model for Switzerland*** to shape its sugar trade relations with selected developing countries like Mozambique? Similar to the Sugar Protocol, Switzerland could consider a preferential sugar agreement with a limited number of developing countries, offering for specific quantities of raw or refined sugar guaranteed prices at the price level offered to Swiss farmers, instead of world market prices. The following deliberations are important in seeking an answer.

A mechanism based on the principles of the Sugar Protocol involves considerable costs. The question arises who finances this burden within the Swiss context? Is it the taxpayer, through the allocation of budgets of the Federal Office of Agriculture (FOAG) – as in the EU the Sugar Protocol is financed at the expense of the budgets for agriculture? Or would the development cooperation budgets (seco) be strained? Both budgets are already severely under stress and there would be high opportunity costs for such a new venture. An alternative is to pass the additional costs on to the consumer. This option raises new resources for development and is closer to the idea of fair trade. Looking at the liberal framework of the internal sugar market in

---

[8] See www.acpsugar.org/index.shtml

[9] Herrmann Roland, Weiss Dietmar, A Welfare Analysis of the EC-ACP Sugar Protocol, Agrarökonomische Diskussionsbeiträge Nr. 24, Universität Giessen 1994

[10] Locke Anna, The Mozambique Sugar Industry: Overview and Outlook, presentation at the FAO/Mozambique Third International Sugar Conference, 10 – 12 October 2002 in Maputo (Mozambique)

Switzerland, technical issues about how to integrate that concern into the Swiss sugar market become key. The basic market order principles would have to be revised in line with development concerns. In comparison to the European Union, the internal order of the Swiss sugar market is less interventionist.

Assessment: To launch a Swiss version of the Sugar Protocol, there would be high hurdles to overcome, not only in financial but also in technical and political terms. Against this background, we do not recommend the government to develop this option further when treading new paths to improve access of Mozambican sugar to the Swiss market.

6 Private Options

6.1 Organic Sugar

Present situation: 'Organic' concerns essentially the sugar beet itself and some of the substances used in the chemical process, such as formaldehyde (antibacterial), which are not authorised in 'organic sugar production'. Chemically no difference can be recognised between organic and ordinary refined sugar (99,8 % saccharose).

The Swiss production process of organic sugar must be certified by an inspection agency accredited by the Federal Office of Agriculture (FOAG). Sugar beet cultivation is not suitable for organic production methods[11]. Switzerland produced an insignificant 800 t of organic sugar, largely based on beet imports from Germany.

Organic sugar imports to Switzerland are around 1000 - 1500 t per year[12], basically of Latin American origin: from Paraguay (650 t refined sugar, 350 t raw sugar), smaller quantities from Brazil (100 t) and some countries of Central America, plus 200 t white sugar from the European Union. There is no preferential treatment of organic sugar compared to conventional sugar. Therefore, the previously mentioned tariffs and considerations apply equally to organic sugar. The price premium for certified organic sugar of all qualities is USD 120 per ton.

The consumption of organic sugar in Switzerland is at a low level. One of the reasons may be that the consumers cannot taste the difference between conventional and organic refined sugar, while paying a substantially higher price. The consumer price for 1 kg of white normal sugar is SFR 1.50 whereas a kg of organic sugar costs SFR 2.70. To be credible in the market, it is important in particular for imported sugar to be labelled "bio". The requirements and procedures are accessible on the internet[13].

Perspectives: Specialists believe that organic and "bio" labelled sugar has an unexploited market potential and a future in Switzerland despite its higher price.

[11] See Chapter 4.2 of our previous paper Gerster Richard/Jenni Roland, Sugar Protection in Switzerland, December 2002
[12] Estimates by experts (Mr. Schweizer, COOP, Mr. Seiler, ZAF)
[13] www.bio-siusse.ch

Many consumers may wish to support organic alternatives in general and might be interested in alternative organic products. Food processing industries specialised in "bio" products – also an expanding market in Switzerland – require organic sugar as an input. Because of the difficulties in trying to cultivate sugar beet organically, neither Switzerland nor the European Union are competitive in organic sugar production. Therefore, organic sugar is a market niche and opportunity for cane sugar exporters.

6.2 Fair Trade Sugar

Present situation: The Swiss fair trade movement established the Max Havelaar Foundation[14], which intends (1) to provide market access at fair and sustainable conditions for products grown by farming cooperatives and agricultural workers in disadvantaged regions of the Southern hemisphere; and (2) to certify and verify that products with the Max Havelaar quality label are produced and sold in accordance with international criteria of fair trade. Max Havelaar stands for fair trade with farming cooperatives and plantations. This includes among other things: fair prices to cover costs of production, guaranteed minimum wages for workers as well as long-term trade relations. Products are grown in accordance with strict criteria to guarantee premium quality. As a member of Fairtrade Labelling Organisations International (FLO), the Max Havelaar Foundation defines the standards and verifies compliance with fair trade criteria throughout the trade chain. Since it operates as a non-profit organisation, the Foundation does not deal directly with products.

Globally, ten producer organisations in five countries are labelled by the FLO[15]. These organisations have a production volume of over 15'000 t per year. Global consumption for fair trade sugar was 1'200 t in 2001 and in 2002 an increase to 1'400 t is expected. This includes refined white sugar, brown sugar and raw sugar (panela) with distinctly separate markets. The Swiss market absorbs at present only about 10% or 100-150 t of fair trade sugar, most of it is used for fair trade chocolates and other fair trade products, which does not really represent direct sugar consumption. A large part of it is – and will be even more in future – a combination of organic and fair trade sugar. The price for refined fair trade sugar is USD 520, compared to a world market price level of USD 220 – 240. In case of organic fair trade sugar (Paraguay), the price premium of USD 120 has to be added, summing up to USD 640 a ton.

Perspectives: Consumption of fair trade sugar globally equals just about 10% of the production capacity of all the certified producer organisations. Despite this discrepancy, it can make sense to certify new producer organisations e.g. from Mozambique, as the importers freely choose their suppliers among the labelled producer organisations. In such a way the FLO-certification is a real opportunity also for Mozambican suppliers,[16] being competitive in quality, price and services. Switzerland's two biggest supermarkets, Coop and Migros, will bring organic fair

---

[14] We follow here the mission statement of the Max Havelaar Foundation mentioned in www.maxhavelaar.ch

[15] Communication of this and the other figures on fair trade by Andreas Leisinger, Max Havelaar Switzerland

[16] An exploratory visit of a FLO staff member, Ms. Christelle Ayglon, is scheduled for February 2003.

trade sugar on the market in 2003. In both cases, this sugar is imported from Paraguay and is labelled “Max Havelaar”.

6.3 Assessment

Despite the still marginal significance of organic sugar and fair trade sugar there is a considerable potential in expanding these market niches. In the framework of its programme of cooperation with Mozambique, Switzerland should consider supporting Mozambican efforts to supply competitive and duly labelled organic and/or fair trade sugar, and promote efforts on the Swiss side to facilitate market access, including labelling.

7 Competitiveness of Mozambique

All the promising options outlined above are directed to improving market access for all least developed countries (LDCs) on the Swiss sugar market. As from 1 January 2003, the UN list of LDCs[17] comprises 49 countries, Mozambique being one of them.

There is a twofold key question for the Mozambican sugar producers, farmers and refineries alike. Will they be competitive on the Swiss market under the prospective new conditions from 2004 onwards, in terms of quality[18] and price

- In comparison to other LDCs?
- In comparison to the European Union?

There is a comprehensive recent description of the Sugar Economy in Mozambique[19]. This analysis concludes that compared to competing countries in Southern Africa, production costs in Mozambique still are higher. But in the medium term there is said to be room for improvement and eventually full competitiveness.

Competing successfully with the European Union should be within reach looking at the price advantage through preferential treatment (partial reduction or zero tariffs), provided Mozambique can meet the terms of quality and service required.

Taking the basic analysis of the competitiveness of Mozambique’s sugar economy in the medium term as correct, the option arises for Switzerland to consider targeted support to the sugar sector within the framework of its development cooperation programme. A financial or technical input of a transitional nature could well be justified in view of desperately needed job creation in rural areas in general, or in view of creating production conditions to satisfy the requirements of organic and/or Max Havelaar sugar.

[17] See Annex 1
[18] See the remarks in Gerster Richard/Jenni Roland, Sugar Protection in Switzerland, November 2002
[19] Locke Anna, The Mozambique Sugar Industry: Overview and Outlook, presentation at the FAO/Mozambique Third International Sugar Conference, 10 – 12 October 2002, in Maputo (Mozambique)

Annex 1:

List of the Least Developed Countries (LDCs)

1. Afghanistan	26. Madagascar
2. Angola	27. Malawi
3. Bangladesh	28. Maldives
4. Benin	29. Mali
5. Bhutan	30. Mauritania
6. Burkina Faso	31. Mozambique
7. Burundi	32. Myanmar
8. Cambodia	33. Nepal
9. Cape Verde	34. Niger
10. Central African Republic	35. Rwanda
11. Chad	36. Samoa
12. Comoros	37. Sao Tome and Principe
13. Democratic Republic of Congo	38. Senegal
14. Djibouti	39. Sierra Leone
15. Equatorial Guinea	40. Solomon Islands
16. Eritrea	41. Somalia
17. Ethiopia	42. Sudan
18. Gambia	43. Togo
19. Guinea	44. Tuvalu
20. Guinea-Bissau	45. Uganda
21. Haiti	46. United Republic of Tanzania
22. Kiribati	47. Vanuatu
23. Lao People's Democratic Republic	48. Yemen
24. Lesotho	49. Zambia
25. Liberia	

Source: www.un.org/special-rep/ohrlls/ldc/list.htm