

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **South Africa - Republic of**

### **Sugar Annual**

#### **The report covers supply and demand trends for sugar in South Africa**

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**Report Highlights:**

For the 2014/15 MY, South Africa's sugar production is estimated at 2.4 MMT (2.5 MMTRV), three percent more than in the 2013/14 MY, on the back of a higher expected sugar cane crop. Post forecasts that South Africa will have enough stocks to exports about one million MTRV of sugar in the 2014/15 MY. In the 2013/14 MY, South Africa's sugar exports could increase by more than 100 percent to reach 760,000 MTRV. Sugar imports are expected to decline to about 250,000 MTRV in the 2014/15 MY, due to an increase in the sugar import tariff that is imminent.

## Executive Summary

For the 2014/15 MY, post forecasts a five percent increase in sugar cane production to 21.0 MMT. Most of the sugar producing areas received good rains during the early parts of 2014, which will contribute to an increase in sugar cane production. The 2013/14 MY sugar cane crop is estimated at 20.0 million tons, 16 percent higher than the 17.3 MMT produced in the 2012/13 MY.

For the 2014/15 MY, sugar production is estimated at 2.4 MMT (2.5 MMTRV), three percent more than the 2.3 MMT (2.4 MMTRV) produced in the 2013/14 MY, on a higher sugar cane crop. In the 2012/13 MY, South Africa produced only 2.0 MMT (2.0 MMTRV), due to a drought-affected production season.

Post forecasts that South Africa will have enough stocks to exports about one million MTRV of sugar in the 2014/15 MY. In the 2013/14 MY, South Africa's sugar exports could increase by more than 100 percent to reach 760,000 MTRV, on increased sugar production. In the 2012/13 MY, South Africa exported 355,730 MTRV of sugar.

Sugar import for the 2013/14MY, could increase by more than 100 percent to almost 500,000 MTRV, as local sugar prices are currently higher than world sugar prices and the current import tariff is zero. South Africa imported 218,558 MTRV of sugar in the 2012/13 MY. Most sugar imports are from Brazil. Sugar imports are expected to decline to about 250,000 MTRV in the 2014/15 MY, due to the increase in the sugar import tariff that is imminent.

Sources:

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<http://www.illovo.co.za>

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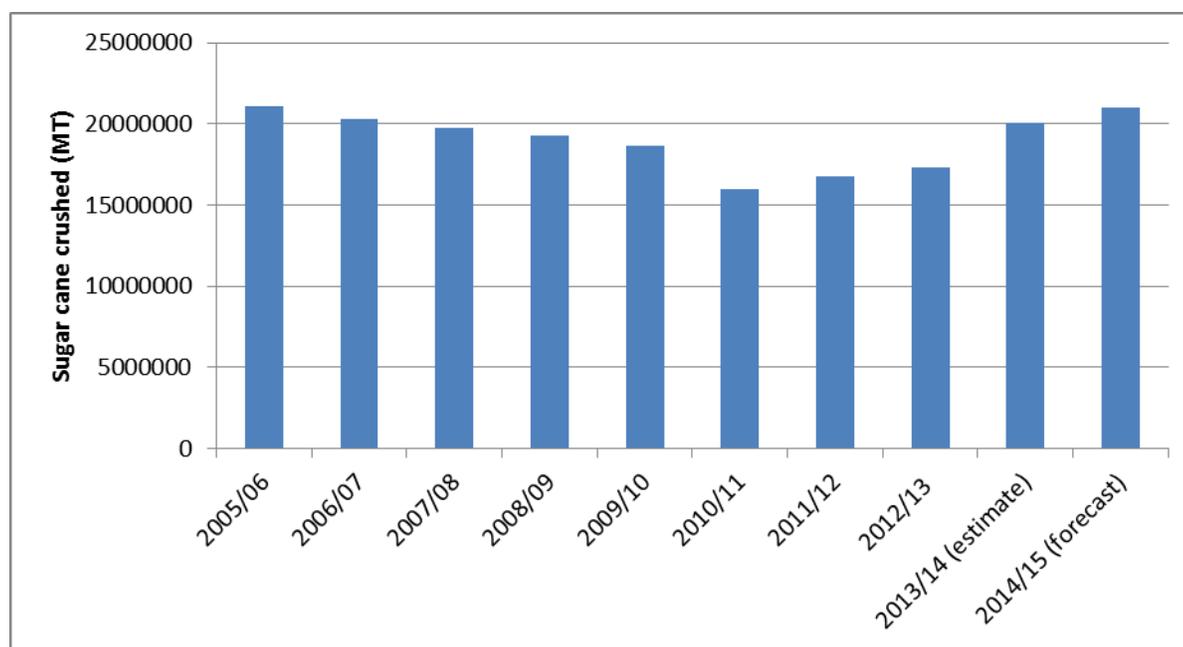
US\$1=R10.55 (04/07/2014)

## Sugar cane

### Production

For the 2014/15 MY, post forecasts a five percent increase in sugar cane production to 21.0 MMT. Since the 2011/12 MY, sugar cane production in South Africa is on an upward trend, after the drought years of 2010 and 2011, (see also Figure 1) and post predicts that this trend will continue in the 2014/15 MY. In addition, most of the sugar producing areas received good rains during the early parts of 2014, which will contribute to an increase in sugar cane production.

The 2013/14 MY sugar cane crop is estimated at 20.0 million tons, 16 percent higher than the 17.3 MMT produced in the 2012/13 MY. Better climatic growing conditions were the main reason for the increase in production.



**Figure 1: Sugar cane crushed in South Africa since the 2005/06 MY**

For the 2014/15 MY, sugar production is estimated at 2.4 MMT (2.5 MMTRV), three percent more than in the 2013/14 MY, on the back of a higher expected sugar cane crop. Table 1 illustrates the production of sugar in South Africa for 2012/13 MY (actual), 2013/14 MY (estimate) and 2014/15 MY (forecast).

**Table 1: The production of sugar in South Africa**

Marketing years	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (MT*)	Cane/sugar ratio
2012/13	371,662	271,684	63.6	17,278,020	1,951,518	8.9
2013/14 (estimate)	375,000	285,000	70.2	20,033,000	2,343,000	8.6
2014/15 (forecast)	380,000	300,000	70.0	21,000,000	2,415,000	8.7

\*Tel Quell x 1.035 = Raw value, Refined x 1.07 = Raw value

### Alternative uses for sugar cane

In August 2012, the South African government published regulations regarding the mandatory blending of bio-fuels with petrol and diesel. The regulations allow for five percent blending for biodiesel production, and set a permitted range of two percent up to ten percent for ethanol. The regulations did not mention the specific feedstock that can be used for bio-fuels, but it is general knowledge that the government will allow canola, sunflower and soybeans as feedstock for biodiesel, and sugar cane, sugar beet and sorghum as feedstock for ethanol. On September, 30, 2013, the Minister of Energy announced that the date for the mandatory blending of biofuels with petrol and diesel will be October, 1, 2015 (refer also to the following Gain report <http://fasintranetapps-gain.fas.usda.gov/Applications/FileDownload.aspx?FileID=13499>)

However, the South African Sugar Association (SASA) recently stated that the local sugar industry would need to be highly subsidized to kick-start the production of fuel grade ethanol. In addition, funding would be needed to extend existing sugar mills by building distilleries. So far, only one sugar cane company has been granted a license to make bioethanol, while licenses have been granted to four plants to manufacture bioethanol from sorghum.

### Cane prices

The South African sugar industry is a net exporter of sugar. In order to distribute export earnings equitably amongst growers and millers, the South African Sugar Association (SASA) has implemented a Division of Proceeds. The Division of Proceeds is the formula where revenue that accrues to the sugar industry is allocated to millers and growers under a partnership arrangement. The Sugar Act and the Sugar Industry Agreement provide regulatory support for the Division of Proceeds.

Industry revenues earned from domestic and export sales of sugar and molasses are accounted for by SASA. After the deduction of administration costs, the net proceeds are shared between growers and millers at a predetermined percentage of net proceeds. Cane growers are thus paid for their sugar cane according to the quality of the cane delivered to the mill through this revenue sharing arrangement. Cane quality is measured by the Recoverable Value (RV) formula, which estimates the amount of sugar and molasses that can be produced from a delivery of cane. A provisional Recoverable Value (RV) price is declared monthly to ensure provisional payments to growers during the season.

The RV price for sugar cane in the 2013/14 MY decrease by two percent to R3,116 per ton from the final price of R3,197 per ton that was set in the 2012/13 MY. This follows on a global decline in the

price of sugar. However, a weakening R/US\$ exchange rate supported the domestic sugar price. RV prices paid the past three years to growers are shown in Table 2.

**Table 2: Recoverable Value and cane prices**

<b>MY (Apr – Mar)</b>	<b>RV Price (Rand)</b>	<b>Cane Price (Rand)</b>	<b>Average R/\$ Exchange rate</b>
<b>2011/12</b>	3,017.51	352.38	7.45
<b>2012/13</b>	3,197.32	389.00	8.51
<b>2013/14</b>	3,116.66	355.00	10.12

**Table 3: PS&D for sugar cane**

<b>Sugar Cane for Centrifugal South Africa</b>	<b>2012/2013</b>		<b>2013/2014</b>		<b>2014/2015</b>	
	<b>Market Year Begin: Apr 2012</b>		<b>Market Year Begin: Apr 2013</b>		<b>Market Year Begin: Apr 2014</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Area Planted</b>	380	372	385	375		380
<b>Area Harvested</b>	274	272	310	285		300
<b>Production</b>	17,278	17,278	20,727	20,033		21,000
<b>Total Supply</b>	17,278	17,278	20,727	20,033		21,000
<b>Utilization for Sugar</b>	17,278	17,278	20,727	20,033		21,000
<b>Utilization for Alcohol</b>	0	0	0	0		0
<b>Total Utilization</b>	17,278	17,278	20,727	20,033		21,000
1000 HA, 1000 MT						

## **Sugar**

### **Production**

For the 2014/15 MY, sugar production is estimated at 2.4 MMT (2.5 MMTRV), three percent more than the 2.3 MMT (2.4 MMTRV) produced in the 2013/14 MY, on a higher sugar cane crop. In the 2012/13 MY, South Africa produced only 2.0 MMT (2.0 MMTRV), due to a drought-affected production season.

### **Consumption**

The South African Customs Union (SACU) is the primary market for the South African sugar industry. The SACU market comprises South Africa, Botswana, Lesotho, Namibia and Swaziland. Access to the market is regulated by the Southern African Development Community Sugar Cooperation Agreement. South Africa and Swaziland are the only sugar producing countries in SACU. The region's sugar demand is estimated at approximately 2.2 MMT (2.3 MTRV) or 37kg per capita. In the 2012/13 MY, the South African sugar industry supplied 1.6 MMT (1.7 MTRV) to the SACU market and Swaziland about 302,043 tons (312,615 MTRV). The rest of the sugar demand was met by imports (218,490 MTRV), mainly from Brazil.

The demand for sugar in the SACU region is expected to grow by only two percent in the 2013/14 MY and by another two percent in the 2014/15 MY to 2.3 MMT (2.4 MTRV). Economic growth is the main overall driver for the increase in the demand for sugar and sugar products and South Africa's economy is expected to grow by less than three percent in 2014 and 2015. Labor unrest, upwards inflationary pressures, which are dimming consumer demand, and electricity constraints are some of the factors contributing to weak economic growth forecasts.

Posts expects that South Africa's sugar sales to the SACU market will drop by at least 200,000 MTRV in the 2013/14 MY. Currently, South Africa cannot compete with sugar imports, especially from Brazil, and the industry has asked for an increase in import tariffs (see also next section). When the import tariff increases, South Africa's sugar sales in the SACU market should rise again.

From South Africa's SACU sales, approximately 45 percent is sold to industrial customers, with the balance sold directly to consumers at retail. Approximately 77 percent of sugar sold to customers is refined sugar and the balance is brown sugar. Table 4 contains South African sugar sales into the SACU market for the 2012/13 MY (actual), 2013/14 MY (estimate) and 2014/15 MY (estimate).

**Table 4: South African sales of sugar into the SACU market**

<b>MT *</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
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<b>White sugar</b>	1,200,970	1,050,000	1,230,000
<b>Brown sugar</b>	409,712	350,000	420,000
<b>Direct sales</b>	887,553	770,000	900,000
<b>Industrial sales</b>	733,128	630,000	750,000
<b>Total sales</b>	1,610,682	1,400,000	1,650,000
<b>MTRV</b>	1,723,430	1,500,000	1,765,000

\*Refined x 1.07 = Raw value

## **Trade**

### **Tariff increase**

In September 2013, SASA applied to the International Trade Administration Commission of South Africa (ITAC) for an increase in the domestic Dollar-based reference price for sugar, classified under tariff heading 17.01, from US\$358 per ton to US\$764 per ton. Using the requested reference price of US\$764 per ton, the variable tariff formula of sugar will trigger an increase if the 3-week moving average price for the London No. 5 sugar settlement price falls by US\$20 per ton below the base price.

The main motivations given by the SASA for the application of a higher tariff is that the sugar industry is a key component for socio-economic development in the South African agricultural sector. For the sugar industry to continue its contribution to the government's development objectives, it requires economic stability and sustainability in a distorted global sugar sector. SASA argues that an increase in import tariffs can play a crucial role in this regards and will help the sugar industry to maintain its contribution to socio-economic development in South Africa.

In March this year, the Minister of Trade and Industry said that a change to the import tariff on sugar is imminent, as a new regime has been processed and passed on to the South African Revenue Service for implementation. The Minister did not disclose the new tariff as it still needs to be published in the government gazette. The decision confirms the current policy shift by the South African Government to use raising import tariffs in order to protect local industries.

### **Exports**

Post forecasts that South Africa will have enough stocks to exports about one million MTRV of sugar in the 2014/15 MY. In the 2013/14 MY, South Africa's sugar exports could increase by more than 100 percent to reach 760,000 MTRV, on increased sugar production. In the 2012/13 MY, South Africa exported 355,730 MTRV of sugar. In the first 10 months of the 2013/14 MY, South Africa already exported 636,585 MTRV of sugar. Indonesia, Japan, Australia, New Zealand and countries in sub-Saharan Africa were the main markets. Exports and imports for raw sugar and refined sugar for the 2012/13 MY and 2013/14 MY (May 2013 to January 2014) are shown in the trade matrixes below.

### **Imports**

Sugar import for the 2013/14MY, could increase by more than 100 percent to almost 500,000 MTRV, as local sugar prices are currently higher than world sugar prices and the current import tariff is zero. South Africa already imported 440,595 MTRV in the first 10 months of the 2013/14 MY. South Africa

imported 218,558 MTRV of sugar in the 2012/13 MY. Most sugar imports are from Brazil. Sugar imports are expected to decline to about 250,000 MTRV in the 2014/15 MY, due to the increase in the sugar import tariff.

**Export Trade**

Country	South Africa,		
Commodity	Cane Sugar (HS170111, 170112, 170113, 170114)		
Time Period	My	Units:	Mt
Exports to:	2012/13		2013/14*
U.S.	23,216	U.S.	0
Others		Others	
Japan	30,000	Indonesia	114,737
Mozambique	9,843	Zimbabwe	43,057
Indonesia	36,000	Mozambique	16,309
Zimbabwe	20,776	Japan	91,000
Namibia	2,009	India	17,850
		Australia	28,200
		New Zealand	26,200
Total for Others	98,628		337,353
Others not Listed	5,148		15,132
Grand Total	126,992		352,485

\*04/01/2013 -01/31/2014

**Export Trade**

Country	South Africa,		
Commodity	Refined sugar** (HS170199, 170191)		
Time Period	My	Units:	Mt
Exports to:	2012/2013		2013/2014*
U.S.	53	U.S.	55
Others		Others	

Mozambique	58,201	Mozambique	86,808
Zimbabwe	36,958	Zimbabwe	51,473
Uganda	13,750	Uganda	9,451
Kenya	6,463	Kenya	10,159
Madagascar	25,973	Madagascar	16,734
Angola	43,215	Angola	38,289
Congo	4,415	Sudan	11,080
Sudan	8,198	Tanzania	13,441
Total for Others	197,173		237,435
Others not Listed	16,548		28,024
Grand Total	213,774		265,514

\*04/01/2013 - 01/31/2014

\*\*Refined x 1.07 = Raw value

### Import Trade

Country	South Africa,		
Commodity	Cane Sugar (HS170111, 170112, 170113, 170114)		
Time Period	My	Units:	Mt
Imports form:	2012/13		2013/14*
U.S.	18	U.S.	0
Others		Others	
Brazil	40,673	Brazil	93,241
Thailand	2,000	Thailand	5,658
Total for Others	42,673		98,899
Others not Listed	425		1,323
Grand Total	43,116		100,222

\*04/01/2013 -01/31/2014

### Import Trade

Country	South Africa,		
Commodity	Refined sugar** (HS170199, 170191)		
Time Period	My	Units:	Mt
Exports to:	2012/13		2013/14*
U.S.	665	U.S.	4
Others		Others	
Brazil	146,412	Brazil	280,125
Thailand	9,314	Guatemala	27,500
India	4,204	Thailand	3,976
Finland	2,684		

Total for Others	162,614	311,601
Others not Listed	686	6,501
Grand Total	163,965	318,106

\*04/01/2013 – 01/31/2014

\*\*Refined x 1.07 = Raw value

**Table 5: PS&D for sugar**

Sugar, Centrifugal South Africa	2012/2013		2013/2014		2014/2015	
	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	162	162	172	189		469
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,020	2,020	2,450	2,425		2,500
Total Sugar Production	2,020	2,020	2,450	2,425		2,500
Raw Imports	48	43	50	120		75
Refined Imp.(Raw Val)	174	175	175	380		175
Total Imports	222	218	225	500		250
Total Supply	2,404	2,400	2,847	3,114		3,219
Raw Exports	128	127	250	420		600
Refined Exp.(Raw Val)	249	229	350	340		400
Total Exports	377	356	600	760		1,000
Human Dom. Consumption	1,850	1,850	1,880	1,880		1,920
Other Disappearance	5	5	5	5		5
Total Use	1,855	1,855	1,885	1,885		1,925
Ending Stocks	172	189	362	469		294
Total Distribution	2,404	2,400	2,847	3,114		3,219
1000 MT						