

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **South Africa - Republic of**

### **Sugar Semi-annual**

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

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**Report Highlights:**

Post forecasts that the 2014/15 MY sugar cane production will decrease by nine percent to 18.2 MMT, from the 2013/14 MY sugar cane production of 20.0 MMT, as a result of very dry weather conditions experienced in 2014. The impact of increasing the domestic dollar-based reference price from US\$358/ton to US\$566/ton has been significant, and post forecasts that imports will decline by about 49 percent to 305,000 MTRV in the 2014/15 MY.

## Executive Summary

For the 2014/15 MY, post forecasts that the South African sugar cane production will decrease by nine percent to 18.2 MMT, from the 2013/14 MY sugar cane production of 20.0 MMT, as a result of very dry weather conditions experienced in 2014 in the Kwa-Zulu Natal (KZN) province. The decrease in sugar cane production will result, in a nine percent decrease of sugar production to 2.1 MMT (2.2 MTRV) in the 2014/15 MY, from 2.4 MMT (2.5 MTRV) in the 2013/14 MY.

Post forecasts that South Africa will have enough stocks to export about 800,000 MTRV of sugar in the 2014/15 MY, an eight percent decrease from the 2013/14 MY exports of 868,000 MTRV, based on the decrease in sugar production.

Post forecasts that sugar imports for the 2014/15 MY to decrease by 49 percent to 305,000 MTRV, due to the increase in the domestic dollar-based reference price which resulted in import tariffs being applicable to non-SACU sugar imports. The impact of increasing the domestic dollar-based reference price has been significant, as imports from non-SACU countries have decreased by about 98 percent in 2014.

## Sources

South African Sugar Association	<a href="http://www.sasa.org.za">http://www.sasa.org.za</a>
Illovo Sugar Company	<a href="http://www.illovo.co.za">http://www.illovo.co.za</a>
Tongaat Hulett Sugar	<a href="http://www.huletts.co.za">http://www.huletts.co.za</a>
Tsb	<a href="http://www.tsb.co.za">http://www.tsb.co.za</a>
South African Canegrowers	<a href="http://www.sacanegrowers.co.za">http://www.sacanegrowers.co.za</a>
South African Revenue Services	<a href="http://www.sars.gov.za">www.sars.gov.za</a>
Department of Energy	<a href="http://www.energy.gov.za">www.energy.gov.za</a>

## Exchange Rate

US\$1=R11.25 (10/01/2014)

MMT – Million metric tons

MMTRV – Million metric tons raw value

MY – Marketing Year

## Sugar cane

### Production

Post forecasts that the South African 2014/15 MY sugar cane crop will decrease by nine percent to 18.2 MMT from the 2013/14 MY sugar cane production of 20.0 MMT. The nine percent decrease in sugar cane production is due to very dry weather conditions in 2014, in the sugar cane production areas of Kwa-Zulu Natal (KZN) province. According to industry sources, in the period from January to August 2014, the sugar cane production areas of KZN areas have received approximately 35 percent less rainfall when compared to the same period in 2013. The 2014/15 MY production figure forecasted by post, is four percent lower than industry published forecasts because industry published figures lag by

one month, and post believes that the industry estimate was conservative at the time and had not anticipated that the dry conditions would continue beyond October. Table 1 below illustrates the sugar cane production in South Africa for the 2012/13 MY (actual), 2013/14 MY (actual) and 2014/15 MY (estimate).

**Table 1: The production of sugar cane 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	375,000	285,000	70.2	20,032,969	2,352,878	8.5
2014/15 (estimate)	370,000	280,000	65.0	18,200,000	2,141,000	8.5

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

Source: South African Canegrowers

Figure 1 below shows the main sugar cane production areas in South Africa. The Kwa-Zulu Natal Province is largely rain fed production (approximately 95 percent rain fed) with limited irrigated areas, while the Mpumalanga province is all irrigated.

**Figure 1: Map of sugar cane production areas**



Source: South Africa Sugar Association

### Alternative uses for sugar cane

The South African sugar industry currently uses bagasse to generate electricity which is largely fed back to the sugar mills. Other mills produce downstream products such as furfuryl alcohol, furfural and industrial alcohol. There is currently no commercial production of biodiesel and fuel grade ethanol from sugar cane in South Africa. On August, 23, 2012, the South African government published regulations regarding the mandatory blending ([Click here for the regulation](#)), and 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 ([Click here for the statement](#)). Post contacts have indicated that while there is a strong interest in biofuels, actual production is anticipated to only commence once government finalizes and passes the government position paper on biofuels. The position paper was published for public comments on January, 15, 2014, and the deadline for public comments was February, 10, 2014. The position paper can be found on the following link; ([Click here for the position paper](#)). There is uncertainty as to when government will finalize this regulation, and some post contacts have indicated that this could occur after the approval of the budget in February 2015.

### Cane prices

In South Africa, the sugar cane price paid to cane growers is determined by the South African Sugar Association (SASA) using a formula called the Division of Proceeds, in accordance to the Sugar Act of 1978 and the Sugar Industry Agreement of 2000. The Division of Proceeds formula aims to ensure that the revenue that accrues to the sugar industry is allocated to millers and growers fairly under a partnership arrangement. The industry notional revenue earned from the domestic sugar and molasses sales, as well as actual export revenue 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.

In September, 2014, the industry forecasted that the 2014/15 RV price for sugar cane will increase by four percent to R3,274.31/RV ton (US\$291.05/RV ton) from the 2013/14 RV Price of R3,137.87/RV ton (US\$278.92/RV ton), based on the weakening R/US\$ exchange rate and the impact of the drought conditions. RV prices paid to growers for the past three years are shown in Table 2.

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

MY (Apr – Mar)	RV Price (Rand)	Cane Price (Rand)	Average R/\$ Exchange rate
2011/12	3,017.51	352.38	7.45
2012/13	3,197.32	389.00	8.51
2013/14	3,137.87	355.00	10.12
2014/15 (Estimate)	3,274.31	373.00	11.25

Source: South African Canegrowers

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

Sugar Cane for Centrifugal South Africa	2012/2013	2013/2014	2014/2015
	Market Year Begin: Apr 2012	Market Year Begin: Apr 2013	Market Year Begin: Apr 2014

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Area Planted</b>	372	372	375	375	380	370
<b>Area Harvested</b>	272	272	285	285	300	280
<b>Production</b>	17,278	17,278	20,033	20,033	21,000	18,200
<b>Total Supply</b>	17,278	17,278	20,033	20,033	21,000	18,200
<b>Utilization for Sugar</b>	17,278	17,278	20,033	20,033	21,000	18,200
<b>Utilization for Alcohol</b>	0	0	0	0	0	0
<b>Total Utilization</b>	17,278	17,278	20,033	20,033	21,000	18,200

1000 HA, 1000 MT

Source: South African Canegrowers data and Post data

## Sugar

### **Production**

Post forecasts that the 2014/15 MY sugar production will decrease by nine percent to 2.1 MMT (2.2 MMTRV), from the 2013/14 MY sugar production of 2.4MMT, as a result of a nine percent decrease in the sugar cane crop, due to dry weather conditions experienced in 2014. Some industry stakeholders have recently been quoted by the media indicating that some mills would be closing a month earlier due to the drought conditions.

There are six sugar milling companies in South Africa, namely, Tongaat Hullet Sugar, Illovo Sugar, Tsb, Umfolozi Sugar Company, Gledhow Sugar Company and UCL Sugar Company. These six milling companies own a combined total of 14 sugar mills in the Kwa-Zulu Natal Province (12 Mills) and Mpumalanga Province (2 Mills).

### **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 SACU sugar demand for the 2014/15 MY is estimated to grow by five percent to approximately 2.3 MMT (2.4 MTRV) or 37 kg per capita sugar consumption. Economic growth and the rise of the middle class is the main overall driver for the increase in the demand for sugar and sugar products in SACU. However, South Africa's domestic consumption is forecasted to only increase by an average of two percent due to lower than average economic growth as a result of labor unrest, upwards inflationary pressures, dimming consumer demand, and electricity constraints.

Post forecasts that South Africa's 2014/15 sugar supply to SACU will increase by 25 percent to approximately 1.8 MMT (1.9 MTRV), based on the increase in import tariffs which have significantly slowed down non-SACU imports. Swaziland's supply to SACU will also increase by eleven percent to 340,286 MT (364,106 MTRV) in the 2014/15 MY. Imports into SACU are forecasted at only about 200,000 MTRV in 2014/15 MY due to the impact of the tariff increase.

In the 2013/14 MY, the South African sugar industry supplied 1.4 MMT (1.5 MTRV) to the SACU market and Swaziland supplied about 307,918 MT (329,472MTRV). The rest of the sugar demand was met by record high imports of approximately 480,000 MT (475,082 MTRV), mainly from Brazil. In the 2012/13 MY, the South African sugar industry supplied 1.6 MMT (1.7 MTRV) to the SACU market

and Swaziland supplied about 302,043 MT (323,186 MTRV). The rest of the sugar demand was met by approximately 220,000 MTRV imports.

Table 4 below 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**

MT *	2012/13	2013/14	2014/15
<b>White sugar</b>	1,200,970	1,050,000	1,300,000
<b>Brown sugar</b>	409,712	350,000	450,000
<b>Direct sales</b>	887,553	770,000	950,000
<b>Industrial sales</b>	733,128	630,000	800,000
<b>Total sales</b>	1,620,681	1,400,000	1,750,000
<b>MTRV</b>	<b>1,734,129</b>	<b>1,498,000</b>	<b>1,872,500</b>

\*Refined x 1.07 = Raw value

Source: South African Sugar Association data and Post data

## Trade policies

### Increase in the domestic Dollar Based Reference Price

The domestic Dollar Based Reference Price (DBRP) mechanism is designed to ensure that, inclusive of the duty, the DBRP (currently US\$566 per ton), is the lowest price that an importer will pay for imported sugar. In the event that the import prices are lower than the DBRP, an import duty is applicable, while an import price higher than the DBRP would result in no import duties payable.

On April, 4, 2014, the South African Revenue Service implemented the International Trade Commission of South Africa's (ITAC) recommendation that the DBRP for sugar be increased from US\$358/ton to US\$566/ton. Details of the ITAC recommendation can be found on the following link, <http://www.itac.org.za/docs/Reportpercent20No.percent20463.PDF>. The ITAC recommendation was in response to an application lodged by SASA for the DBRP to increase from US\$358/ton to US\$764/ton, to protect the domestic sugar industry from duty free imports. The main justification provided by SASA for the increase was the important role of the sugar industry in socio-economic development in the rural areas, and that in order for the sugar industry to continue its contribution to governments' development objectives it required financial and economic stability through fair protection from the distorted sugar world market. Some industry sectors have raised concern on the impact such a decision would have on the domestic and SACU sugar prices as the increase in import duties would be passed on to consumers.

### Customs Import duties

On September, 26, 2014, the South African Revenue Service published the following customs duties shown in Table 5. There is a rebate on the rate of duty for sugar imported from SADC countries, thus all SACU imports are duty free.

**Table 5: Customs duties**

				<b>Rate of Duty (c/kg)</b>
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Heading/ Subheading	CD	Article Description	Unit	General	EU	EFTA	SADC
<b>17.01</b>		<b>Cane or beet sugar and chemically pure sucrose, in solid form:</b>					
<b>1701.1</b>		<b>Raw sugar not containing added flavoring or coloring matter:</b>					
1701.12	2	Beet sugar	Kg	142.5	142.5	142.5	142.5
1701.13	9	Cane sugar	Kg	142.5	142.5	142.5	142.5
1701.14	5	Other cane sugar	Kg	142.5	142.5	142.5	142.5
<b>1701.9</b>		<b>Other:</b>					
1701.91	2	Containing added flavoring or coloring matter	Kg	142.5	142.5	142.5	142.5
1701.99	3	Other	Kg	142.5	142.5	142.5	142.5

Source: South African Revenue Service.

### Free Trade Agreement

The Department of Trade and Industry has issued media statements on the potential 150,000 tons sugar quota that South Africa could be granted under the SADC/EU Economic Partnership Agreement. The SADC/EU Economic Partnership Agreement was initiated by the participating negotiators on July, 15, 2014, and will become effective after it is signed by all participating member countries. Post contacts indicated that South Africa expects to start utilizing the EU quota in the 2015/16 MY once the EPA becomes effective and provided that the EU sugar prices improve.

### United States sugar Tariff Rate Quota (TRQ) allocation

South Africa was allocated a TRQ of 24,220 MTRV to the United States for the 2015 FY. South Africa confirmed that it would fully utilize this quota and has additional capacity to supply 20,000 MTRV should it be allocated an additional TRQ.

### Exports

South Africa only exports surplus sugar after supplying the domestic market. Post forecasts that South Africa will have enough stocks to export about 800,000 MTRV of sugar in the 2014/15 MY, an eight percent decrease from the 2013/14 MY sugar exports of 868,000 MTRV, based on the decrease in sugar production. In the 2014/15 MY, South Africa had high beginning stocks of about 460,000 MTRV due to slow domestic sugar sales as a result of record high imports in the 2013/14 MY. In the 2012/13 MY, South Africa exported 355,730 MTRV of sugar. Indonesia, Japan, Australia, New Zealand and countries in sub-Saharan Africa were the main markets. Exports of raw sugar and refined sugar are shown in Table 6 and Table 7, respectively. The 2013/14 MY and 2014/15 MY, export trade statistics now includes SACU exports as per Global Trade Atlas (GTA) data.

**Table 6: Export Trade Statistics – Raw Sugar**

South Africa Export Statistics				
Commodity: Raw Sugar Codes (HS170111, 170112, 170113, 170114)				
Year Ending: March				
Partner Country	Unit	2012/13	2013/14	2014/15*
World	T	126,992	527,785	90,853
Indonesia	T	36,000	197,297	0
Japan	T	30,000	121,000	0
United States	T	23,216	0	23,205

Zimbabwe	T	20,775	46,980	1,574
Namibia	T	2,009	33,321	33,435
Australia	T	0	28,200	0
New Zealand	T	30	26,200	0
Mozambique	T	9,843	20,472	5,433
India	T	0	17,850	0
Botswana	T	0	14,998	8,889
Lesotho	T	0	7,378	4,680
Angola	T	1,023	1,565	35
Israel	T	946	1,354	375
Others	T	2,249	11,171	13,227

\*04/01/2014 -07/31/2014

Source: GTA

**Table 7: Export Trade Statistics – Refined Sugar**

South Africa Export Statistics				
Commodity: Refined Sugar Codes (HS170199, 170191)				
Year Ending: March				
Partner Country	Unit	2012/13	2013/14	2014/15*
World	T	213,774	318,170	98,194
Mozambique	T	58,600	95,699	32,857
Zimbabwe	T	36,958	57,485	12,413
Angola	T	43,215	42,235	16,517
Madagascar	T	25,973	20,641	4,957
Tanzania	T	10	16,943	152
Botswana	T	34	16,520	11,283
Sudan	T	8,198	11,080	0
Kenya	T	6,463	10,827	3,500
Uganda	T	13,750	10,101	4,050
Ghana	T	1,638	4,820	2,431
Congo Dem. Rep.	T	4,415	4,041	1,424
Comoros	T	3,492	3,406	1,188
Namibia	T	4,341	2,605	2,537
Other	T	6,687	21,767	4,885

\*04/01/2014 -07/31/2014

\*\*Refined x 1.07 = Raw value

Source: GTA

### Imports

Post forecasts that South Africa sugar imports will decline by about 49 percent to 305,000 MTRV in the 2014/15 MY, from the 2013/14 MY record high imports of 598,771 MTRV, due to the increase in the domestic dollar-based reference price which resulted in import tariffs being applicable to non-SACU sugar imports. The impact of increasing the DBRP has been significant, as imports from non-SACU

countries have decreased by about 98 percent in 2014. About, 80 percent of the 2014/15 MY sugar imports in South Africa will be from Swaziland as they are duty free. Imports of raw sugar and refined sugar are shown in Table 8 and Table 9, respectively. The 2013/14 MY and 2014/15 MY, import trade statistics now includes SACU imports as per GTA data.

**Table 8: Import Trade Statistics – Raw Sugar**

South Africa Import Statistics				
Commodity: Sugar Raw, Raw Sugar Codes (HS170111, 170112, 170113, 170114)				
Year Ending: March				
Partner Country	Unit	2012/13	2013/14	2014/15*
World	T	43,116	207,795	96,140
Swaziland	T	0	100,743	89,204
Brazil	T	40,672	98,053	5,770
Thailand	T	2,000	5,658	250
India	T	264	2,478	64
Namibia	T	0	268	52
Germany	T	47	70	46
Mauritius	T	44	66	22
Netherlands	T	8	16	4
United States	T	18	10	0
Belgium	T	27	8	
Other	T	34	425	728

\*04/01/2014 -07/31/2014

Source: GTA

**Table 9: Import Trade Statistics – Refined Sugar**

South Africa Import Statistics				
Commodity: Refined Sugar Codes (170199, 170191)				
Year Ending: March				
Partner Country	Unit	2012/13	2013/14	2014/15*
World	T	163,965	365,398	11,434
Brazil	T	146,412	315,438	2,945
Guatemala	T	0	27,500	0
Swaziland	T	0	10,031	7,514
India	T	4,204	4,641	740

Thailand	T	9,315	3,980	8
Finland	T	2,684	0	0
United States	T	665	5	0
United Arab Emirates	T	271	2,097	0
Hong Kong	T	254	3	2
Tanzania	T	0	750	0
Switzerland	T	1	271	0
United Kingdom	T	90	135	4
Other	T	69	547	221

\*04/01/2013 – 01/31/2014

\*\*Refined x 1.07 = Raw value

Source: GTA

**Table 10: 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	189	189	469	460
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,020	2,020	2,425	2,435	2,500	2,200
Total Sugar Production	2,020	2,020	2,425	2,435	2,500	2,200
Raw Imports	43	43	120	208	75	270
Refined Imp.(Raw Val)	175	175	380	391	175	35
Total Imports	218	218	500	599	250	305
Total Supply	2,400	2,400	3,114	3,223	3,219	2,965
Raw Exports	127	127	420	528	600	450
Refined Exp.(Raw Val)	229	229	340	340	400	350
Total Exports	356	356	760	868	1,000	800
Human Dom. Consumption	1,850	1,850	1,880	1,890	1,920	1,930
Other Disappearance	5	5	5	5	5	5
Total Use	1,855	1,855	1,885	1,895	1,925	1,935
Ending Stocks	189	189	469	460	294	230
Total Distribution	2,400	2,400	3,114	3,223	3,219	2,965

1000 MT