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Sugar Semi-annual

Sugar Production and Demand in South Africa

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Report Highlights:

Sugar cane production in South Africa is expected to increase by only six percent to 16.98MMT in the 2011/12 season due to the worst drought in 20 years that hit the main sugar producing area in 2010.

Hence, sugar production for the 2011/12 season is estimated at 1.93 MMT Tell Quell (2.0 MMTRV), only 0.6 percent more than in the 2010/11 season. The 2010/11 season's sugar production was 1.92 MMT Tell Quell (1.99 MMTRV), the smallest in 15 years. As a result, South Africa's sugar exports declined by almost 50 percent to 203,379 MT raw sugar and 211,296 MT (226,087 MTRV) refined sugar. Sugar exports are expected to stay low in the 2011/12 season on the back of the relatively small estimated sugar crop and the increase in the demand for sugar in the SACU market.

Executive Summary:

After the extreme drought in 2010 that affected large parts of the Kwazulu-Natal province, sugar cane production decreased by more than 14 percent to 16.02 MMT in the 2010/11 season (April 2010 to March 2011). Despite better climatic conditions experienced this year by sugar cane farmers, the preliminary estimate for the 2011/12 season sugar cane crop is 16.98MMT, only six percent higher than the previous season. Hence, sugar production for the 2011/12 season is estimated at 1.93 MMT Tell Quell (2.0 MMTRV) only 0.6 percent more than in the 2010/11 season. The 2010/11 season sugar production was 1.92 MMT Tell Quell (1.99 MMTRV), the smallest in 15 years.

South Africa's sugar exports declined by almost 50 percent in 2010/11 season on the back of lower domestic production due to the drought of 2010. South Africa exported 203,379 MT of raw sugar and 211,296 MT (226,087 MTRV) of refined sugar during the 2010/11 season. The 2010/11 sugar exports only represented about 20 percent of total production where the average percentage of production being exported the past 10 years was almost 45 percent. Sugar exports are expected to stay low in the 2011/12 season due to an expected increase in the demand for sugar in the SACU market coupled with the estimated relatively small domestic sugar crop. South Africa will, however, deliver on their 2011/12 Unites States tariff rate sugar allocation.

Sources:

<http://www.sasa.org.za>

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

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

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

<http://www.sacane growers.co.za>

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Sugar cane

Production

After the extreme drought in 2010 that affected large parts of the Kwazulu-Natal province, where 75 percent of South Africa's sugar cane is produced, sugar cane production decreased by more than 14 percent to 16.02 MMT in the 2010/11 season (April 2010 to March 2011). Despite better climatic conditions experienced this year by sugar cane farmers, the preliminary estimate for the 2011/12 season sugar cane crop is 16.98MMT, only six percent higher than the previous season. The secondary impacts of the 2010 drought such as cane root mortality and the forced harvest of young cane are the major reason for only a small increase in sugar production.

In addition to diverse weather condition, South African sugar cane growers farms under increasingly difficult situations. This can be observed by the declining trend sugar growers production the past 15 years (see also Figure 1). There are mainly three reasons that contribute to the decline of sugar cane production in South Africa. The first reason is the continuing rise in input costs versus declining revenue. Since 1995 the rate of change in the cane price index has been considerably lower than the rate of change in the index of primary farming requisite prices leading to a cost-price squeeze. This negative trend has discouraged farmers from planting more sugar cane or to use the optimal amounts of fertilizer. The second reason is land reform. Slow progress in resolving land claims in many parts of the sugar cane growing regions of South Africa, particularly Kwazulu-Natal, is affecting claimants and land owners. There is little investment in farms with unresolved land claims and also concern as to the caliber of future cane growers, many of whom have limited farming experience. The third reason is the use of sugar cane land for other purposes due to *inter alia* urbanization.



Figure 1: The trend in sugar cane production in South Africa

The sugar area to be harvested for the 2011/12 season is estimated at 280,000 hectares almost at the same level as the 2010/11. For the 2011/12 season, sugar production is estimated at 1.93 MMT Tell Quell (2.0 MMTRV) only 0.6 percent more than in the 2010/11 season. The cane to sugar ratio is

estimated at 8.79. The 2010/11 season sugar production was 1.92 MMT Tell Quell (1.99 MMTRV), the smallest in 15 years. Table 1 illustrates the production of sugar in South Africa for 2008/09 (actual), 2009/10 (actual) and 2010/11 (actual) and 2011/12 (estimate) marketing years.

Table 1: The production of sugar in South Africa

Season	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (MT*)	Cane/sugar ratio
2008/09	413,566	311,425	61.8	19,255,404	2,269,087	8.49
2009/10	391,483	291,770	63.9	18,655,089	2,187,542	8.53
2010/11	382,721	279,535	57.3	16,015,649	1,919,116	8.35
2011/12	383,000	280,000	60.7	16,982,000	1,932,000	8.79

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

The structure of the sugar industry in South Africa

There are approximately 29,130 registered sugarcane growers in South Africa, covering three provinces, namely Kwazulu-Natal, Mpumalanga and the Eastern Cape. Of the 29,130 sugarcane growers, more than 27,580 are small-scale growers producing eight percent of the total crop. Large-scale growers (approximately 1,550) produce approximately 85 percent of the total sugarcane crop, while milling companies with their own sugar estates produce approximately seven percent of the crop. The bulk of the sugar belt receives sufficient rainfall to grow cane without irrigation; however, parts of northern Kwazulu-Natal and Mpumalanga regions cannot produce cane without irrigation (approximately 30 percent of total production). The cane growers are represented by the South African Cane Growers Association.

There are 14 sugar mills in South Africa. Four mills are each owned by Illovo Sugar Ltd and Tongaat Hulett Sugar Ltd. Three mills are owned by Tsb Sugar RSA Ltd, while Umfolozi Sugar Mill (Pty) Ltd, UCL Company Ltd and Gledhow Sugar Company (Pty) Ltd each own one mill. Only two mills are located in the Mpumalanga province, while the remainder is located in the Kwazulu-Natal province. The sugar millers are represented by the South African Sugar Millers' Association Limited. Four of the mills are known as "white end" mills and produce their own refined sugar. Part of the raw sugar produced by Tsb Sugar RSA Ltd is refined at the Malelane "white end" mill, and the balance is exported via the sugar terminal in Maputo, Mozambique. The raw sugar produced at the remaining mills that is not used by the milling companies for exports of bagged refined sugar or direct consumption raw sugar, is routed to coastal city of Durban. In Durban it is either refined at the central refinery of Tongaat Hulett Sugar Ltd or stored at the South African Sugar Association sugar terminal prior to export.

The South African sugar industry is regulated to facilitate the relationship between growers and millers and to protect the industry against international trade distorting measures. The South African Sugar Association (SASA) is constituted in terms of the Sugar Act (Act 9 of 1978) which provides for the Sugar Industry Agreement to regulate the affairs of the industry. The SASA is an autonomous organization and operates free of government control. Due to the interdependence of millers and growers in the sugar industry, SASA has been structured on the basis of a partnership. The South African Cane Growers' Association and the South African Sugar Millers' Association Ltd are equal

partners in the SASA and are represented by equal numbers of members on the Council of SASA where decisions are reached on a consensus basis (see also Figure 2).

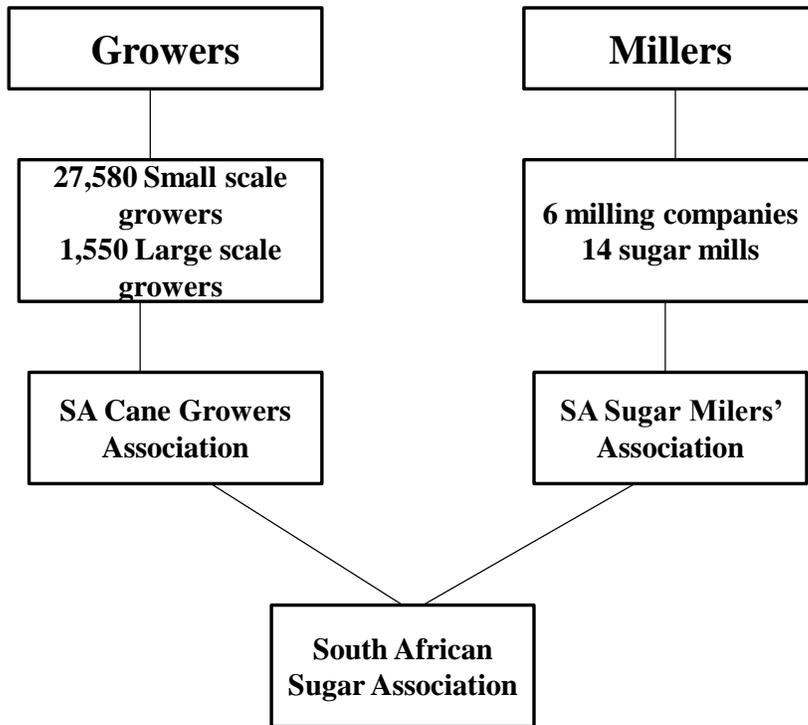


Figure 2: Organization of the South African sugar industry

Review of the Sugar Act (1978) and Sugar Industry Agreement (2000)

The Sugar Act has been amended from time to time in response to changing circumstances in the industry and the environment in which it operates. The South African sugar industry is currently busy with another review of the Sugar Act. The current review aims at achieving a competitive environment which will contribute to the optimal development of the industry within the accepted framework of the South African Customs Union (SACU) and the Southern African Development Community (SADC). The review, furthermore, aims for the establishment of a positive legal framework for the involvement of government in the sugar industry and to establish appropriate interventions that address the impact of the distorted world sugar market on the domestic market.

Cane growers believe that the new policy direction and sugar industry framework will prevent the further erosion of production and place growers in a position to add value to their cane growing interests and thereby improve revenue through the value chain. The review process has been taken to the growers at grassroots level for comments before it will continue at organizational level later this year.

Cane prices

The South African sugar industry is a net exporter of sugar. In order to distribute exposure to the world market 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 the SASA. After the deduction of administration costs, the net proceeds are shared between growers and millers at a predetermined percentage of net proceeds (see also figure 3). 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 during the season which is applied to all cane delivered to date. A final RV price for the season is declared in March of each year.

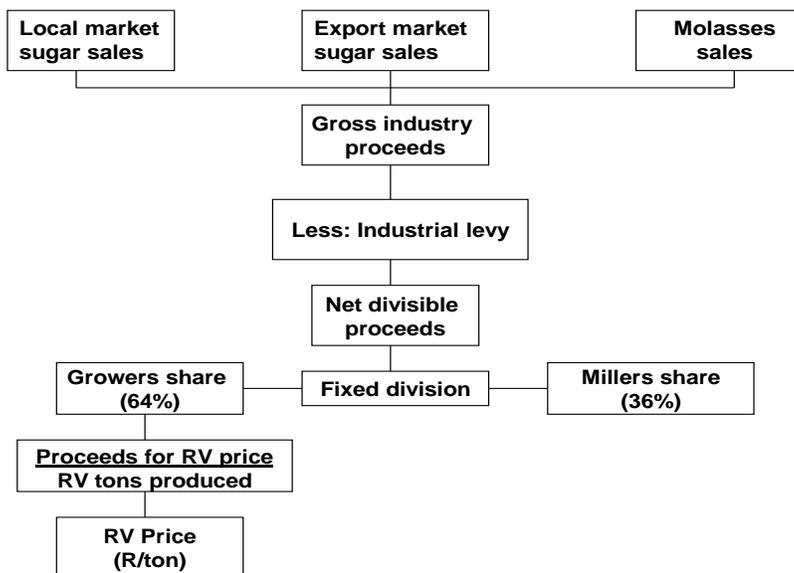


Figure 3: The Division of Proceeds

The August RV price for sugar in the 2011/12 season was declared at R2,897 per ton. The monthly RV price for the remainder of the season will continue to be subjected to volatility in the world market price until there is more certainty of the season's production and export availability. The final RV price for the 2011/12 season is expected to be R2,929 per ton, almost 14 percent higher than the previous season and reflects higher international prices and relative low domestic sugar production. Average cane and RV prices the past 10 years for the industry paid by millers to growers are shown in Table 2.

Table 2: Average Recoverable Value and cane prices

Year (Apl – Mrt)	RV Price (Rand)	Cane Price (Rand)	Average R/\$ Exchange rate
2002/03	1 368.79	171.78	9.72
2003/04	1 357.01	169.08	7.17
2004/05	1 297.19	159.55	6.26
2005/06	1 389.80	173.59	6.40
2006/07	1 701.86	198.78	7.04
2007/08	1 701.90	208.82	7.13
2008/09	2 011.18	251.00	8.87
2009/10	2 284.20	284.15	7.80
2010/11	2 572.14	331.55	7.15
2011/12	2 929.00	350.00	7.00

Sugar Cane for Centrifugal South Africa	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	391	391	405	383		383
Area Harvested	292	292	301	280		280
Production	18,655	18,655	18,670	16,016		16,982
Total Supply	18,655	18,655	18,670	16,016		16,982
Utilization for Sugar	18,655	18,655	18,670	16,016		16,982
Utilization for Alcohol	0	0	0	0		0
Total Utilization	18,655	18,655	18,670	16,016		16,982
1000 HA, 1000 MT						

Sugar

Production

For the 2011/12 season, South Africa's sugar production is estimated at 1.93 MMT Tell Quell (2.0 MMTRV) less than one percent more than the 1.92 MMT Tell Quell (1.99 MMTRV) in the 2010/11 season on the back of lower sugar cane production due to the secondary impacts of last year's drought.

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 producers in SACU and together produce in excess of the region's sugar demand, which is estimated at 1.92 MMT.

The SACU demand for sugar showed a growth of just over one percent in the 2010/11 season. South Africa sugar sales into SACU increased by 3.4 percent in the 2010/11 season due to production constraints in SACU's other traditional trading partners like Zimbabwe. However, the annual per capita consumption for sugar in SACU has decreased in the 2010/11 season to 34.3kg from its highest level of 35.8kg in the 2008/09 season. The main reason for this decline is the slow recovery of the South African economy after the 2008 financial crisis. However, the long-term prospects for increased sugar consumption remain good as the South African economy is expected to grow by more than three percent per annum from 2011.

The South African sugar industry supplied 1.55 MMT and Swaziland 325,000 MT of sugar to the SACU market in the 2010/11 season. From South Africa's SACU sales, approximately 44 percent is sold to industrial customers, with the balance sold directly to consumers at retail. Approximately 80 percent of sugar sold to customers is refined sugar and the balance brown sugar. For the 2011/12 season South African sugar sales in the SACU market is expected to increase by three percent to 1.6MMT. Table 3 contains South African sugar sales into the SACU market for the 2009/10 (actual), 2010/11 (actual) and 2011/12 (estimate) marketing years.

Table 3: South African sales of sugar into the SACU market

MT *	2009/10	2010/11	2011/12
White sugar	1,191,342	1,230,945	1,276,000
Brown sugar	307,510	319,132	319,000
Direct sales	867,616	861,273	883,200
Industrial sales	631,236	675,882	701,800
Total sales	1,498,852	1,550,077	1,595,000
MTRV	1,603,771	1,658,582	1,706,650

*Refined x 1.07 = Raw value

Trade

South Africa's sugar exports declined by almost 50 percent in 2010/11 season on the back of lower domestic production due to the drought of 2010. South Africa exported 203,379 MT of raw sugar and 211,296 MT (226,087 MTRV) of refined sugar during the 2010/11 season. The 2010/11 sugar exports only represented about 20 percent of total production where the average percentage of production being exported the past ten years was almost 45 percent. Figure 4 illustrates the declining trends in sugar production and exports by the South African sugar industry the past 15 years. However, there is also a definite increasing trend in sugar sales to the SACU market the past 15 years illustrating the South African sugar industries' competitive advantage in supplying the SACU market with sugar. Sugar exports are expected to increase only slightly in the 2011/12 season on the back of relative low domestic

sugar production and due to an increase in the demand for sugar in the SACU market. South Africa will, however, deliver on their 2011/12 United States tariff rate sugar allocation.

Exports and imports for raw sugar and refined sugar for the 2009/10 season and 2010/11 season are shown in the trade matrixes below. Japan (71,336 raw sugars) and Mozambique (38,040 MT raw sugar and 67,780 MT refined sugar) were the major export destinations, outside the SACU market, for South African sugar in the 2010/11 marketing year. Sugar imports represent approximately six percent of production and are mostly from Brazil.

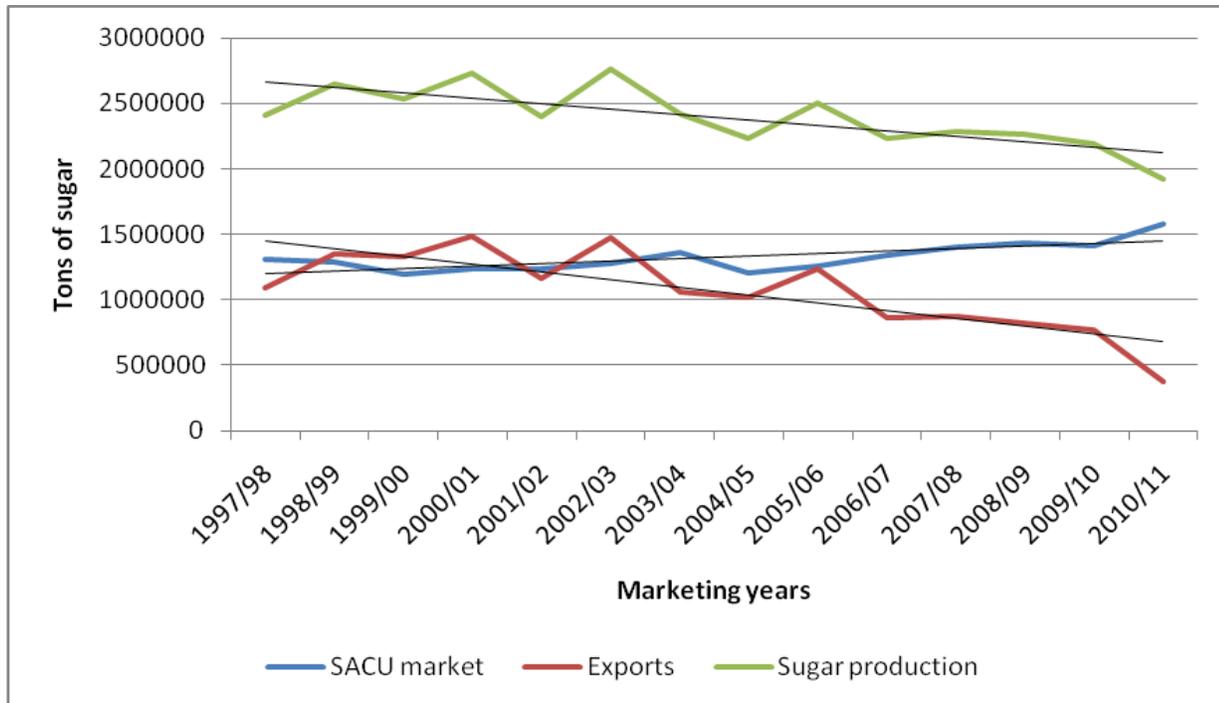


Figure 4: Trends in South Africa's sugar production and sugar sales to the local and export markets

Export Trade

Country	South Africa,		
Commodity	Cane Sugar		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/11
U.S.	22,806	U.S.	1,848
Others		Others	
Indonesia	155,450	Japan	71,336
Japan	131,750	Mozambique	38,040
Mozambique	54,077	Angola	24,230
Bangladesh	50,125	Zimbabwe	28,230

Iran	33,000	Tanzania	10,710
India	30,000	Madagascar	8,849
Russia	25,000	Sudan	5,313
Zimbabwe	33,098	Kenya	5,068
Total for Others	512,500		191,776
Others not Listed	17,155		9,755
Grand Total	552,461		203,379

Export Trade

Country	South Africa,		
Commodity	Refined sugar*		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/2011
U.S.	0	U.S.	0
Others		Others	
Mozambique	89,752	Mozambique	67,780
Sudan	35,130	Madagascar	29,595
Madagascar	23,050	Kenya	19,666
Kenya	21,016	Uganda	17,865
Angola	22,566	Indonesia	10,403
Tanzania	17,417	Mauritius	10,226
Uganda	17,040	Sudan	7,344
Zimbabwe	10,414	Ghana	8,173
Total for Others	236,385		171,052
Others not Listed	22,882		40,244
Grand Total	259,267		211,296

*Refined x 1.07 = Raw value

Import Trade

Country	South Africa,		
Commodity	Cane Sugar		
Time Period	My	Units:	Mt
Imports form:	2009/10		2010/11*
U.S.	0	U.S.	0
Others		Others	
Brazil	32,941	Brazil	49,108

Total for Others	32,941	49,108
Others not Listed	2,833	394
Grand Total	35,774	49,502

Import Trade

Country	South Africa,		
Commodity	Refined sugar*		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/11*
U.S.	0	U.S.	0
Others		Others	
Brazil	61,434	Brazil	52,621
United Arab Emirates	3,905	United Arab Emirates	2,808
Total for Others	65,339		55,429
Others not Listed	909		2,568
Grand Total	66,248		57,997

*Refined x 1.07 = Raw value

Sugar, Centrifugal South Africa	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	30	30	70	70	140	200
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,265	2,265	1,975	1,985	1,840	2,000
Total Sugar Production	2,265	2,265	1,975	1,985	1,840	2,000
Raw Imports	50	50	70	50	90	50
Refined Imp.(Raw Val)	150	150	150	150	180	100
Total Imports	200	200	220	200	270	150
Total Supply	2,495	2,495	2,265	2,255	2,250	2,350
Raw Exports	553	553	270	205	250	230
Refined Exp.(Raw Val)	277	277	230	225	200	250
Total Exports	830	830	500	430	450	480

Human Dom. Consumption	1,590	1,590	1,620	1,620	1,645	1,670
Other Disappearance	5	5	5	5	5	5
Total Use	1,595	1,595	1,625	1,625	1,650	1,675
Ending Stocks	70	70	140	200	150	195
Total Distribution	2,495	2,495	2,265	2,255	2,250	2,350
1000 MT						