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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 2013/14 MY, post forecasts a five percent increase in sugar cane production to 18.1 MMT, due to improved climatic conditions. Sugar production is estimated at 2.2 MMTRV, almost eight percent more than the 2.0 MMTRV of the 2012/13 MY, and as a result sugar exports could increase by 25 percent to reach 500,000 MTRV. Post estimates that sugar exports in the 2012/13 MY could be around 400,000 MTRV, an increase of 47 percent from the 2011/12 MY's sugar exports of 271,330 MTRV.

Executive Summary

For the 2013/14 MY [1] (May 2013 to April 2014), post forecasts a five percent increase in sugar cane production from the 2012/13 MY, to 18.1 MMT. Most of the sugar producing areas received good rains during the early parts of 2013, which will contribute to an increase in sugar cane production. In addition, heavy rains during the end of 2012, hampered harvesting of some sugar cane fields and as a result those fields will be carried over to the 2013/14 MY for harvesting. After enduring two of the worst drought-affected production seasons in the past 20 years, sugar cane production increased by three percent in the 2012/13 MY, to 17.3 MMT. Better climatic growing conditions were the main reason for the increase in production. However, the sugar industry was unable to benefit fully from the better climatic conditions as a national transport strike in October 2012, and heavy rains at the end of 2012, hampered harvesting.

For the 2013/14 season, sugar production is estimated at 2.1 MMT (2.2 MMTRV), almost eight percent more than the 2.0 MMT (2.0 MMTRV) produced in the 2012/13 MY, on a higher sugar cane crop. In the 2011/12 season, South Africa produced its lowest sugar crop the past 15 years at 1.8 MMT (1.9 MMTRV), due to a drought-affected production season.

In the 2013/14 MY, South Africa's sugar exports could increase by 25 percent to reach 500,000 MTRV, due to an increase in sugar production. Post estimates that sugar exports in the 2012/13 MY could be around 400,000 MTRV, an increase of 47 percent from the 2011/12 MY's sugar exports of 271,330 MTRV.

Sources:

http://www.sasa.org.za
http://www.illovo.co.za
http://www.huletts.co.za
http://www.tsb.co.za
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US$1=R9.16 (04/05/2013)

[1] The marketing years (MY) used in the text refer to the USDA marketing years in the PS&D table, and do not necessarily correspond with the marketing years used by the South African sugar industry.

Sugar cane

Production

For the 2013/14 MY, post forecasts a five percent increase in sugar cane production to 18.1 MMT. Most of the sugar producing areas received good rains during the early parts of 2013, which will contribute to an increase in sugar cane production. In addition, heavy rains during the end of 2012 hampered harvesting of some sugar cane fields and as a result those fields will be carried over to the 2013/14 MY for harvesting. However, an 18.1 MMT sugar cane crop is still much lower than the 23.0 MMT produced ten years ago (see also Figure 1). In addition to variable weather conditions in recent years, South African sugar cane growers have faced decreased profit margins, land reform, urbanization, high crime levels and infrastructure constraints. These factors have lead to a significant reduction in farmers' investment towards improving production efficiencies. As a result, South Africa's average sugar cane yields are currently relatively lower compared to other sugar cane producing countries. Almost half of sugar growers left the industry since the 2002/03 MY, as the returns of investment in sugar farming are relatively unattractive and the sugar cane area harvested decreased by about 15 percent. The number of large scale sugar cane producers declined by 20 percent the past ten years to about 1,400, while small scale sugar cane producers declined by 48 percent to about 25,000.

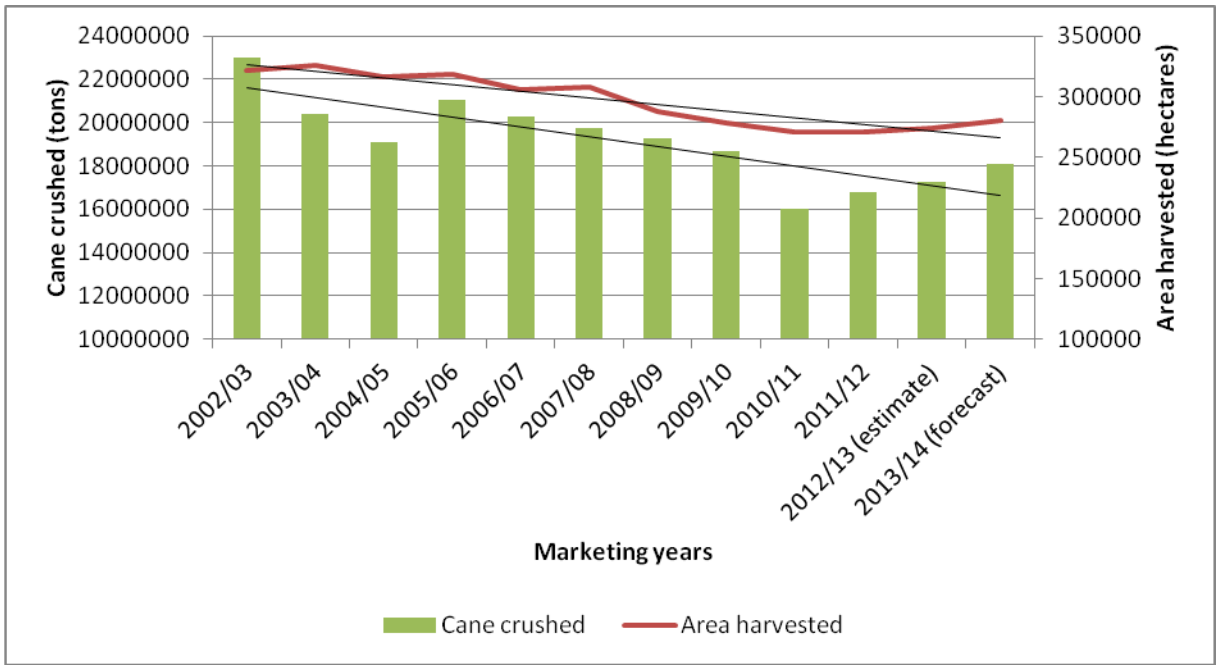

Figure 1: Sugar area harvested and cane crushed since the 2002/03 MY in South Africa

After enduring two of the worst drought-affected production seasons in the past 20 years, sugar cane production increased in the 2012/13 MY by three percent to 17.3 MMT. Better climatic growing conditions were the main reason for the increase in production. However, the sugar industry was unable to benefit fully from the better climatic conditions as a national transport strike in October 2012, and heavy rains at the end of 2012, hampered harvesting.

The 2011/12 season sugar cane crop was finalized at 16.8 MMT, only five percent higher than the previous season's 16.0 MMT. Drought and secondary impacts of drought, such as cane root mortality

and the forced harvest of young cane, were the major reasons for South Africa having one of the lowest sugar cane production seasons ever.

For the 2013/14 MY, sugar production is estimated at 2.1 MMT (2.2 MMTRV), almost eight percent more than in the 2012/13 MY, on the back of a higher expected sugar cane crop. The 1.8 MMT (1.9 MMTRV) sugar that was produced in the 2011/12 season was the lowest in the past 15 years in South Africa and illustrated the impact of the drought. Table 1 illustrates the production of sugar in South Africa for 2011/12 MY (actual), 2012/13 MY (estimate) and 2013/14 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
2011/12	378,307	270,705	62.1	16,800,277	1,832,438	9.2
2012/13 (estimate)	380,000	274,000	63.1	17,278,000	1,952,000	8.9
2013/14 (forecast)	385,000	280,000	64.6	18,100,000	2,100,000	8.6

*****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 26,400 registered sugarcane growers in South Africa, covering the provinces of Kwazulu-Natal, Mpumalanga and the Eastern Cape. Of the 26,000 sugarcane growers, more than 25,000 are small-scale growers producing about ten percent of the total crop. Large-scale growers (approximately 1,400) produce approximately 83 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 produces cane under irrigation (approximately 30 percent of total production). 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.

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) was set up by the Sugar Act (Act 9 of 1978), which mandates the Sugar Industry Agreement to regulate the affairs of the industry. 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).

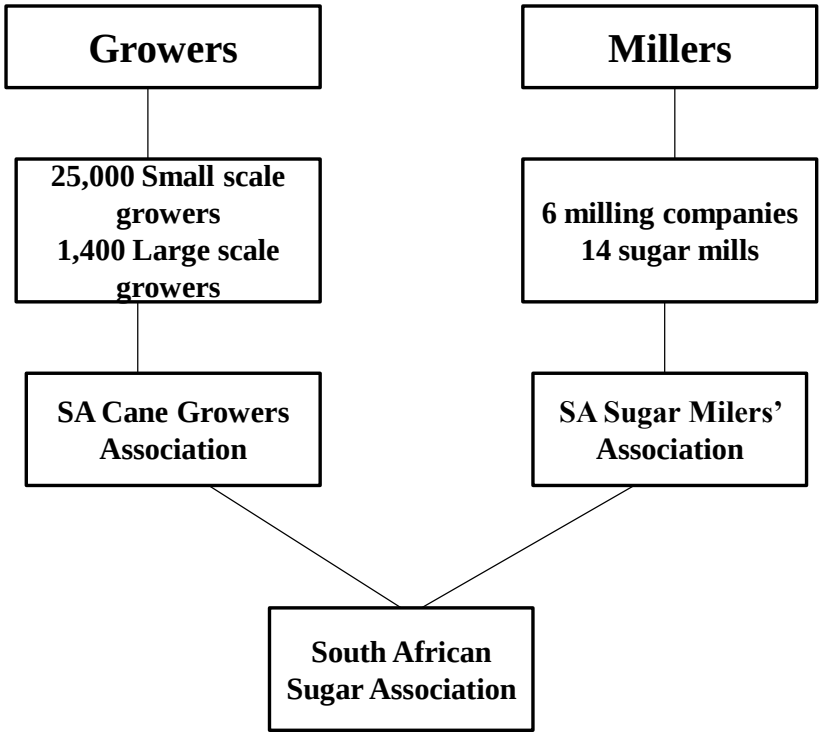

Figure 2: Organization of the South African sugar industry

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. A strategic framework for bio-fuel production in South Africa will now be developed by the government. No implementation date for the mandatory blending was set by the published regulations, and will be determined at a later stage by the Minister of Energy.

The production of electricity from biomass in South Africa was only allocated a small capacity of 12.5MW and this excluded the use of bagasse for electricity production. Discussions have taken place between the Department of Energy and the sugar industry about evaluating the potential of the sugar industry to make a meaningful contribution to South Africa's renewable energy program. It is the sugar industry's view that the benefits from bagasse-based electricity will have a positive impact on the South African sugar industry and the South African economy.

Cane prices

The South African sugar industry is a net exporter of sugar. In order to distribute export earnings equitably amongst growers and millers, 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 during the season which is applied to all cane delivered to date.

The final RV price for sugar cane delivered in the 2012/13 MY was set at R3,197 per ton and reflects relative high international prices and a weaker Rand/$US exchange rate. Final RV prices paid the past three years to growers are shown in Table 2.

Table 2: Recoverable Value and cane prices

Year (Apr – Mar)	RV Price (Rand)	Cane Price (Rand)	Average R/$ Exchange rate
2010/11	2,572.14	331.55	7.15
2011/12	3,017.51	352.38	7.45
2012/13	3,197.32	360.00	8.51

Table 3: PS&D for sugar cane

Sugar Cane for Centrifugal South Africa	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	383	378	388	380		385
Area Harvested	280	270	287	274		280
Production	16,800	16,800	18,590	17,278		18,100
Total Supply	16,800	16,800	18,590	17,278		18,100
Utilization for Sugar	16,800	16,800	18,590	17,278		18,100
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	16,800	16,800	18,590	17,278		18,100
1000 HA, 1000 MT						

Sugar

Production

For the 2013/14 season, sugar production is estimated at 2.1 MMT (2.2 MMTRV), almost eight percent more than the 2.0 MMT (2.0 MMTRV) produced in the 2012/13 MY, on a higher sugar cane crop. In the 2011/12 season, South Africa produced its lowest sugar crop the past 15 years at 1.8 MMT (1.9 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 or 37kg per capita. Post estimates that the South African sugar industry supplied about 1.7 MMT (1.8 MMTRV), Swaziland about 310,000 tons (330,000 MTRV) and imports, mainly from Brazil, about 190,000 MT (200,000 MTRV) to the SACU market in the 2012/13 MY. South Africa's sugar sales into the SACU market grew, on average, by approximately two percent per annum the past ten years and post believes this trend will continue into the 2013/14 MY (see also Figure 3). Hence, South Africa's sugar sales into the SACU market is expected to reach almost 1.8 MMT (1.9 MMTRV) in the 2013/14 MY.

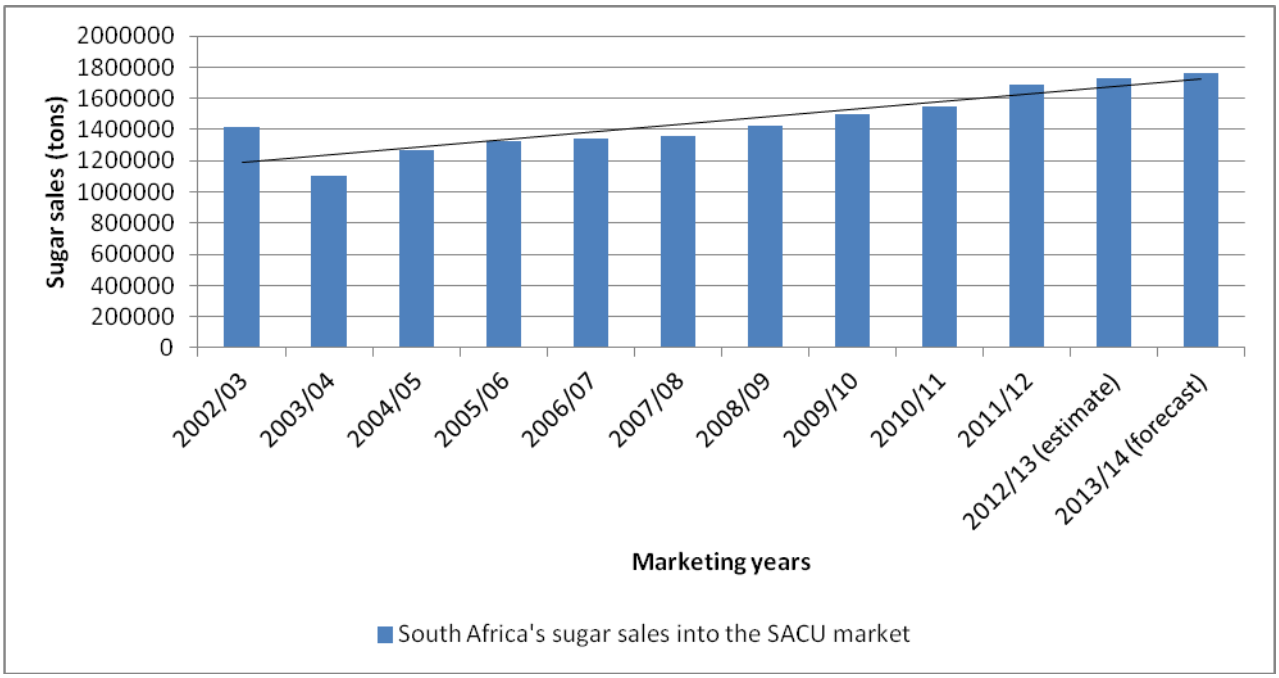

Figure 3: South Africa's sugar sales into the SACU market

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 2011/12 MY (actual), 2012/13 MY (estimate) and 2013/14 MY (forecast).

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

MT *	2011/12	2012/13	2013/14
White sugar	1,296,866	1,325,000	1,350,000
Brown sugar	392,697	400,550	410,000
Direct sales	930,119	950,250	970,000
Industrial sales	759,443	775,300	790,000
Total sales	1,689,562	1,725,550	1,760,000
MTRV	1,807,831	1,846,338	1,883,200

*Refined x 1.07 = Raw value

Trade

In the 2013/14 MY, South Africa's sugar exports could increase by 25 percent to reach 500,000 MTRV on increased sugar production. Post estimates that sugar exports in the 2012/13 MY could be around 400,000 MTRV, an increase of 47 percent from the 2011/12 MY's sugar exports of 271,330 MTRV. Sugar exports decreased by 40 percent in 2011/12 MY, due to the lowest sugar crop the past 15 years in South Africa, as a result of drought. In the first 8 months of the 2012/13 MY (May 2012 to December 2012), South Africa already exported almost 280,000 MTRV of sugar. Post estimates South Africa will export 170,000 MTRV of raw sugar and 215,000 MT (230,000 MTRV) of refined sugar in the 2012/13 MY.

Figure 4 illustrates the declining trends in sugar production and exports by the South African sugar industry since the 2002/03 MY. However, there is an increasing trend in sugar sales to the SACU market since the 2002/03 MY, illustrating the South African sugar industries' competitive advantage in supplying the SACU market with sugar.

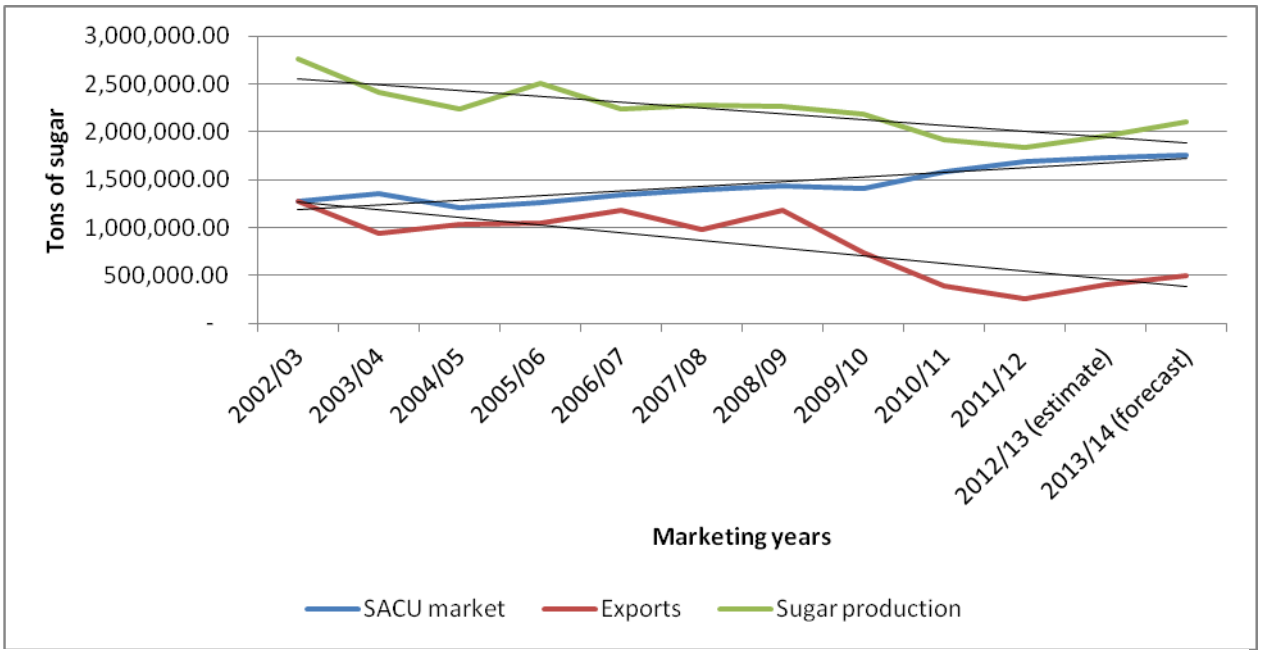

Figure 4: Trends in South Africa's sugar production and sugar sales to the local and export markets

Exports and imports for raw sugar and refined sugar for the 2011/12 MY and 2012/13 MY (May 2012 to December 2012) are shown in the trade matrixes below. Japan (30,000 MT raw sugar), Mozambique (7,064 MT raw sugar and 45,688 MT refined sugar), Angola (25,882 MT refined sugar), Indonesia (36,000 MT raw sugar) and Zimbabwe (14,790 MT raw sugar and 26,474 MT refined sugar) were the major export destinations for South African sugar, so far in the 2012/13 MY.

Sugar imports reached 192,660 MTRV in the 2011/12 MY, representing 11 percent of production. Sugar imports are expected to stay at the same level in the 2012/13 MY, but should decrease to its normal six percent of local production in the 2013/14 MY or about 150,000 MTRV, on an increase in sugar production. Most sugar imports are from Brazil.

Export Trade

Country	South Africa,		
Commodity	Cane Sugar (HS170111, 170113, 170114)		
Time Period	My	Units:	Mt
Exports to:	2011/12		2012/13*
U.S.	14,565	U.S.	23,216
Others		Others	
Japan	30,000	Japan	30,000
Mozambique	24,199	Mozambique	7,064
Angola	26,262	Indonesia	36,000
Zimbabwe	8,940	Zimbabwe	14,790
Madagascar	9,282	Madagascar	864
Congo	4,114		
Total for Others	102,797		88,718
Others not Listed	4,951		553
Grand Total	122,313		112,487

*05/01/2012 -12/31/2012

Export Trade

Country	South Africa,		
	Refined sugar**		
Commodity	(HS170199, 170191)		
Time Period	My	Units:	Mt
Exports to:	2011/2012		2012/2013*
U.S.	0	U.S.	0
Others		Others	
Mozambique	46,749	Mozambique	45,688
Zimbabwe	31,871	Zimbabwe	26,474
Uganda	16,583	Uganda	8,450
Kenya	11,879	Kenya	5,168
Madagascar	9,475	Madagascar	17,173
Angola	6,315	Angola	25,882
Tanzania	6,047	Sudan	5,998
Comoros	3,112	Comoros	2,889
Total for Others	132,031		137,722
Others not Listed	7,235		14,279
Grand Total	139,266		152,001

*05/01/2012 -12/31/2012
**Refined x 1.07 = Raw value

Import Trade

Country	South Africa,		
Commodity	Cane Sugar (HS170111, 170113, 170114)		
Time Period	My	Units:	Mt
Imports form:	2011/12		2012/13*
U.S.	0	U.S.	0
Others		Others	
Brazil	78,091	Brazil	21,202
Thailand	2,000		
Malaysia	8,026		
Total for Others	88,117		21,202
Others not Listed	2,439		299
Grand Total	90,556		21,501

*05/01/2012 -12/31/2012

Import Trade

Country	South Africa,		
Commodity	Refined sugar** (HS170199, 170191)		
Time Period	My	Units:	Mt

Exports to:	2011/12		2012/13*
U.S.	0	U.S.	0
Others		Others	
Brazil	83,041	Brazil	98,511
Thailand	4,870	Thailand	4,335
India	3,907	India	2,893
Total for Others	91,818		105,739
Others not Listed	3,605		2,284
Grand Total	95,423		108,023

*05/01/2012 -12/31/2012
**Refined x 1.07 = Raw value

Table 5: PS&D for sugar

Sugar, Centrifugal South Africa	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	175	175	215	179		144
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	1,885	1,897	2,255	2,020		2,175
Total Sugar Production	1,885	1,897	2,255	2,020		2,175
Raw Imports	55	91	50	50		50
Refined Imp.(Raw Val)	60	102	80	150		100
Total Imports	115	193	130	200		150
Total Supply	2,175	2,265	2,600	2,399		2,469
Raw Exports	115	122	300	170		250
Refined Exp.(Raw Val)	140	149	200	230		250
Total Exports	255	271	500	400		500
Human Dom. Consumption	1,700	1,810	1,740	1,850		1,880
Other Disappearance	5	5	5	5		5
Total Use	1,705	1,815	1,745	1,855		1,885
Ending Stocks	215	179	355	144		84
Total Distribution	2,175	2,265	2,600	2,399		2,469
1000 MT						