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Sugar Semi-annual

South African sugar crop expected to recover from the previous seasons' drought

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Report Highlights:
The South African sugar industry is expected to recover from the previous seasons' drought following the normal rainfall and weather patterns in the 2017/18 MY. As a result, post estimates that the sugar cane crop will increase by fifteen percent to 17.3 MMT in the 2017/18 MY. Sugar production is estimated to increase by twenty seven percent to 1.970 MMT (2.039 MMTRV) in the 2017/18 MY, based on an improvement in sugar cane quality, better factory recoveries and an increase in sugar cane delivered to the mills for crushing. South Africa is expected to fully utilize the United States TRQ allocation in the 2017/18 MY.

Commodities:
Sugar Cane for Centrifugal
Sugar, Centrifugal

Executive Summary

Post estimates that the South African sugar cane crop will increase by fifteen percent to 17.3 MMT in the 2017/18 MY, assuming normal weather conditions and rainfall patterns, as well as higher cane yields as the industry recovers from the previous seasons' drought. Post estimates that sugar production will increase by twenty seven percent to 1.970 MMT (2.039 MMTRV) in the 2017/18 MY, based on the improvement in sugar cane quality, better factory recoveries and an increase in sugar cane delivered to the mills for crushing.

Post estimates that the 2017/18 MY sugar exports will increase to 680,000 MTRV, from 217,000 MTRV in the 2016/17 MY. This was due to the estimated increase in sugar production and the high sugar supply available in the domestic market, and the pace of exports. The 2017/18 MY imports of sugar will decrease by thirty seven percent to 470,000 MTRV, from 744,000 MTRV in the 2016/17 MY, based on the triple increase in customs duties to 213.1c/kg (US$0.16/kg) from 63.63c/kg (US$0.05/kg).

South Africa's domestic sugar consumption is estimated to increase marginally by less than one percent to 1.962 MMTRV in the 2017/18 MY, from 1.960 MMTRV in the 2016/17 MY, based on the increase in population, increase in per capita consumption of sugar by low income households and available sugar supply.

Post estimates that the ending stocks will decrease by thirty two percent to 316,000 MTRV in the 2017/18 MY, from 465,000 MTRV in the 2016/17 MY, based on a significant increase in exports as the industry returns to the normal export volumes and a decrease in imports.

Sources

South African Sugar Association	http://www.sasa.org.za
Illovo Sugar Company	http://www.illovo.co.za
Tongaat Hulett Sugar	http://www.huletts.co.za
Tsb	http://www.tsb.co.za
South African Cane growers	http://www.sacanegrowers.co.za
South African Revenue Services	www.sars.gov.za

MT – Metric tons
MMT – Million metric tons
MTRV - Metric tons raw value
MMTRV – Million metric tons raw value
MY – Marketing Year (April – March)

Sugar cane:

Production

Post estimates that the South African sugar cane crop will increase by fifteen percent to 17.3 MMT in the 2017/18 MY, from 15.1 MMT in the 2016/17 MY. The estimate is based on normal weather conditions and rainfall patterns, as well as the higher cane yields as the industry recovers from the previous seasons' drought. This increase was partially offset by some growers who did not replant their full hectarage and restricted the use of inputs due to the impact of the previous seasons' drought on their finances and the limited availability of seedcane. **Table 1** below shows sugar and sugar cane production statistics up to the 2017/18 MY. Normal sugar cane production should be around 20.0 MMT, and it takes at least two to three seasons for the industry to fully recover from drought.

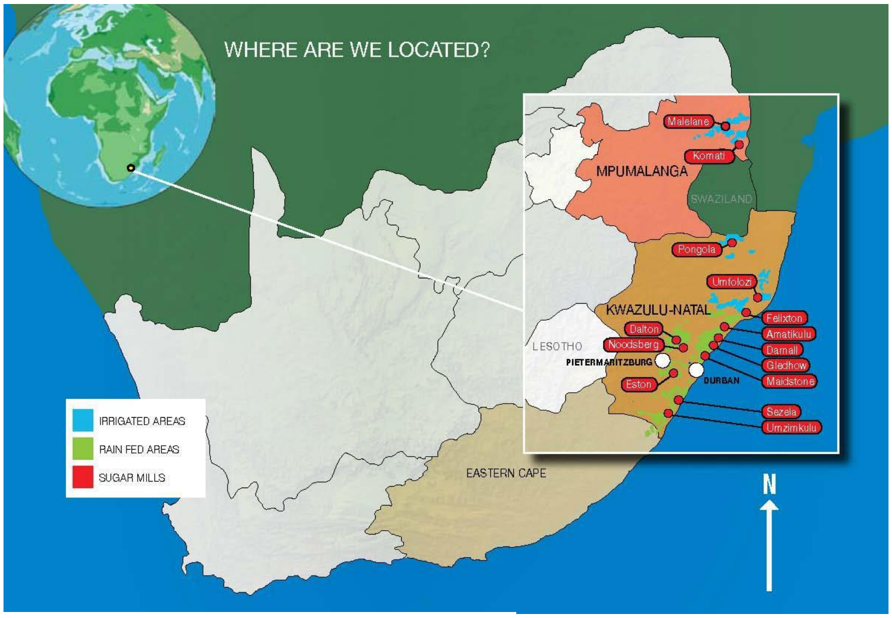
Table 1: The production of sugar and sugar cane in South Africa

Marketing years	Area planted (HA)	Area harvested (HA)	Yield (MT/ HA)	Cane crushed (MT)	Sugar production (Tel Quel MT*)	Cane/sugar ratio
2012/13	371,662	257,095	67.2	17,278,020	1,951,518	8.9
2013/14	378,922	265,939	70.3	20,032,969	2,352,878	8.5
2014/15	381,707	272,590	65.1	17,755,504	2,118,232	8.4
2015/16	370,335	258,497	57.5	14,861,401	1,627,395	9.1
2016/17	360,000	260,000	58.0	15,074,610	1,553,229	9.7
2017/18 (Estimate)	370,000	275,000	62.9	17,300,000	1,970,048	8.8

*****Tel Quell x 1.035 = Raw value, Refined x 1.07 = Raw value; Source: SA 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 ninety five percent rain fed) with limited irrigated areas, while the Mpumalanga province is fully irrigated.

Figure 1: Map of sugar cane production areas



Source: South Africa Sugar Association

The South African sugar industry uses bagasse to generate electricity which is largely fed back to the sugar mills. 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 of biofuels (Click here to download the regulation). On September 30, 2013, the Minister of Energy announced that the date for the mandatory blending of biofuels with petrol and diesel would be October 1, 2015 (Click here to download the statement), once the government position paper on biofuels is finalized. The position paper was published for public comments on January 15, 2014, and the deadline for public comments was February 10, 2014 (Click here to download the position paper). There is uncertainty as to when the government will finalize this regulation as the pricing policy and the framework are still under review and do not currently offer attractive incentives to the sugar industry. Of major interest is that the sugar cane growers are in the final pilot phase of testing and optimizing the production of biogas from sugarcane tops and leaves.

Table 2: PS&D for sugar cane

Sugar Cane for Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	Apr 2015		Apr 2016		Apr 2017	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	370	370	360	360	370	370
Area Harvested	258	258	260	260	265	275
Production	14861	14861	15075	15075	15500	17300
Total Supply	14861	14861	15075	15075	15500	17300
Utilization for Sugar	14861	14861	15075	15075	15500	17300
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	14861	14861	15075	15075	15500	17300
(1000 HA) ,(1000 MT)						

Source: South African Cane growers; South African Sugar Association and Post data

Sugar:

Production

Post estimates that the 2017/18 MY sugar production will increase by twenty seven percent to 1.970 MMT (2.039 MMTRV), from 1.553 MMT (1.608 MMTRV) in the 2016/17 MY. This is based on the significant improvement in sugar cane quality, better factory recoveries and an increase in sugar cane delivered to the mills for crushing as the industry recovers from drought. The cane/sugar ratio improved by nine percent to 8.8 in the 2017/18 MY, from 9.7 in the 2016/17 MY.

There are six sugar milling companies in South Africa; 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

Domestic sugar consumption is estimated to increase marginally by less than one percent to 1.962 MMTRV in the 2017/18 MY, from 1.960 MMTRV in the 2016/17 MY, based on the increase in population, increase in per capita consumption of sugar by low income households and available supply. This increase will be partially offset by the low economic growth forecast at just below one percent. Sugar in South Africa is primarily used for direct human consumption and for industrial purposes e.g. as an ingredient to producing beverages and confectionary products. Some sugar mills produce minimal downstream products such as furfuryl, furfural and industrial alcohol.

Exports

Post estimates that sugar exports will increase significantly to 680,000 MTRV in the 2017/18 MY, from 217,000 MTRV in the 2016/17 MY, due to the estimated increase in sugar production, the high supply of sugar in the domestic market, and the year to date exports. Post revised downwards the 2016/17 MY exports to 217,000 MTRV based on final Global Trade Atlas (GTA) data and the lower than expected sugar production in the 2016/17 MY.

South Africa always exports its surplus sugar regardless of the low or high global prices because of the domestic sugar regulations that stipulate that the price of cane paid to sugar cane growers should be based on revenue obtained from the sugar sales in the local and export market for that specific season. As a result, South Africa only exports surplus sugar once the domestic market and the South African Customs Union (SACU) market are adequately supplied. The South African Customs Union (non-sugar producing countries, namely, Namibia, Botswana, Lesotho), the United States, and countries in sub-Saharan Africa are the main export markets for South African raw sugar exports. The major market for South Africa`s refined sugar exports is sub-Saharan Africa. Exports of raw and refined sugar are shown in **Table 3** and **Table 4**, respectively.

Table 3: Export Trade Statistics – Raw Sugar

South Africa Export Statistics		
Commodity: Sugar Raw		
Year Ending: March		
Partner Country	Unit	Quantity

		2013/14	2014/15	2015/16	2016/17	2017/18*
World	T	527,784	408,313	157,807	128,595	31,874
Namibia	T	33,321	110,050	98,033	93,084	14,624
Kenya	T	275	37	0	0	7,500
Botswana	T	14,997	24,047	19,250	18,631	5,561
Lesotho	T	7,377	16,241	14,355	13,286	3,426
Mozambique	T	20,472	17,611	2,087	2,361	345
Angola	T	1,565	65	132	742	25
St. Helena	T	38	34	34	18	9
Tanzania	T	0	0	2	11	5
Swaziland	T	123	501	417	407	374
Congo Dem. Rep.	T	4	165	13	11	0
Zambia	T	102	82	5	5	4
Zimbabwe	T	46,980	1,905	110	3	0
Malawi	T	0	2	4	0	0
Malaysia	T	0	27,550	0	0	0
New Zealand	T	26,200	0	0	0	0
Other Countries	T	7,100	0	36	0	0
Romania	T	0	8,800	0	0	0
Rwanda	T	1,000	0	0	0	0
Ghana	T	9	9	1	0	0
India	T	17,850	0	0	0	0
Indonesia	T	197,297	20,000	0	0	0
Israel	T	1,354	770	198	0	0
Japan	T	121,000	30,000	0	0	0
Australia	T	28,200	26,012	0	0	0
Bangladesh	T	0	73,650	0	0	0
Yemen	T	10	4,283	16	0	0
Uganda	T	2,500	1	0	0	0
United States	T	0	46,410	23,087	0	0

**Data is from April to July 2017.* Source: Global Trade Atlas (GTA)

Table 4: Export Trade Statistics – Refined Sugar

South Africa Export Statistics
Commodity: Refined Sugar - 170191, 170199
Year Ending: March

Partner Country	Unit	Quantity				
		2013/14	2014/15	2015/16	2016/17	2017/18*
World	T	318,170	340,527	136,975	81,836	49,561
Greece	T	0	0	0	0	7,670
Botswana	T	16,521	37,838	23,014	36,220	11,239
Madagascar	T	20,642	17,304	9,155	76	5,980
Mozambique	T	95,698	107,432	51,617	23,618	1,796
Romania	T	0	0	0	0	1,200
United Kingdom	T	1	6	1	0	747
Kenya	T	10,826	44,621	2,141	0	700
Italy	T	0	0	1	0	1,020
Uganda	T	10,101	7,840	800	0	600
United States	T	128	184	120	8	2,521
Nepal	T	0	0	0	0	430
Ghana	T	4,820	6,157	2,120	8	700
Rwanda	T	5,025	750	0	0	450
Israel	T	0	0	421	645	272
Mayotte	T	2,234	2,386	2,165	1,972	1,350
Lesotho	T	1,341	5,549	4,747	4,991	1,181
Angola	T	42,237	41,332	12,758	5,060	4,923
Namibia	T	2,606	5,811	10,353	7,462	5,791
Comoros	T	3,406	4,092	3,438	904	686
Seychelles	T	233	976	25	29	52
Swaziland	T	21	103	40	40	12
Zambia	T	1,132	111	71	46	12
Malawi	T	16	67	39	19	14
Netherlands	T	6	77	8	24	3
Congo Dem. Rep.	T	4,040	5,912	2,336	45	1
St. Helena	T	31	10	38	23	8
Zimbabwe	T	57,485	43,260	9,641	377	6
Somalia	T	96	550	0	0	25
Spain	T	3,024	0	0	16	0
Saudi Arabia	T	4,000	0	0	0	0
Senegal	T	120	475	100	0	0

** Data is from April to July 2017.* Source: GTA

Imports

Post estimates that the 2017/18 MY imports of sugar will decrease thirty seven percent to 470,000 MTRV, from 744,000 MTRV in the 2016/17 MY. This decrease is based on the year to date imports and the triple increase in customs duties on all sugar to 213.1c/kg (US$0.16/kg) from 63.63c/kg (US$0.05/kg) on September 15, 2017. This is expected to deter imports from October to the end of the season. Refer to the section on trade policies which explains how the customs duties and dollar based reference price works in South Africa. Imports from Swaziland account for at least eighty percent of the total South African sugar imports because Swaziland is part of SACU and exports duty free to South Africa.

Table 5: Import Trade Statistics – Raw Sugar

South Africa Import Statistics						
Commodity: Sugar Raw						
Year Ending: March						
		Quantity				
Partner Country	Unit	2013/14	2014/15	2015/16	2016/17	2017/18*
World	T	209,013	352,168	362,090	368,474	175,059
Swaziland	T	100,743	300,380	331,908	291,847	86,851
Brazil	T	98,053	30,554	15,552	23,638	12,480
El Salvador	T	0	0	0	840	4,149
Guatemala	T	0	1,250	0	2,147	39,700
Argentina	T	0	0	0	20,000	260
United Arab Emirates	T	0	0	336	1,225	30,116
Other Countries	T	416	849	1,044	1,093	64
Namibia	T	268	569	390	537	71
Lesotho	T	1	36	130	32	0
Mauritius	T	66	66	44	61	0
India	T	2,478	1,605	5	73	24
Belgium	T	8	16	0	5	0
Botswana	T	0	34	1	36	0
Czech Republic	T	0	0	0	2,400	0
Netherlands	T	16	8	8	7	0
Germany	T	71	91	138	159	45
Poland	T	0	0	1,000	270	1,000
Saudi Arabia	T	0	0	648	0	0
United States	T	10	0	260	0	0
Zambia	T	0	8,798	9,990	5,925	297
Zimbabwe	T	0	0	0	1,329	0
Switzerland	T	0	0	0	15,254	0
Thailand	T	5,658	7,906	627	1,587	0

** Data is from April to July 2017.* Source: GTA

Table 6: Import Trade Statistics – Refined Sugar

South Africa Import Statistics
Commodity: Refined Sugar - 170191, 170199

Year Ending: March						
		Quantity				
Partner Country	Unit	2013/14	2014/15	2015/16	2016/17	2017/18*
World	T	365,400	143,690	100,553	350,958	55,707
Brazil	T	315,438	93,698	59,165	172,089	41,744
Swaziland	T	10,030	28,603	16,733	28,355	3,786
Ukraine	T	0	0	0	10,400	540
Thailand	T	3,979	459	2,510	33	251
Denmark	T	0	0	0	10	82
Zambia	T	0	6,694	6,195	3,395	433
Germany	T	7	5	42	4,257	1,126
United States	T	4	12	18	814	1
Netherlands	T	135	185	3	1	2
Belgium	T	43	16	10	11	0
Botswana	T	82	110	72	71	0
Egypt	T	0	0	0	1,200	0
France	T	1	4	0	10,135	0
India	T	4,640	5,342	3,168	5,628	1,460
Guatemala	T	27,500	0	0	2,430	0
China	T	3	12	10	14	2
Colombia	T	0	3	13	0	0
Czech Republic	T	0	0	0	335	0
Lesotho	T	0	0	34	0	0
Malawi	T	0	8,290	8,210	4,677	0
Malaysia	T	0	1	1	4,650	0
Italy	T	0	0	2	3	0
Pakistan	T	125	130	270	0	0
Poland	T	0	0	2,200	1,470	925
Portugal	T	0	0	0	212	250
Singapore	T	0	0	0	270	0
Sweden	T	0	0	0	1,680	0
Zimbabwe	T	0	1	118	0	0
United Arab Emirates	T	2,097	0	1,200	98,193	5,016
United Kingdom	T	135	88	429	473	36

** Data is from April to July 2017.* Source: GTA

Stocks

Post estimates that the ending stocks will decrease thirty two percent to 316,000 MTRV in the 2017/18 MY, from 465,000 MTRV in the 2016/17 MY, based on a significant increase in exports as the industry returns to the usual export volumes and a decrease in imports. The 2016/17 MY ending stocks were revised upwards to 465,000 MTRV due to the higher than expected sugar imports, as well as the low exports during the season.

Table 7: PS&D for sugar

Sugar, Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	April 2015		April 2016		April 2017	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	424	424	304	304	332	465
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1684	1684	1607	1608	1760	2039
Total Sugar Production	1684	1684	1607	1608	1760	2039
Raw Imports	362	362	370	368	380	350
Refined Imp.(Raw Val)	108	108	275	376	280	120
Total Imports	470	470	645	744	660	470
Total Supply	2578	2578	2556	2656	2752	2974
Raw Exports	158	158	150	129	300	350
Refined Exp.(Raw Val)	147	147	100	88	200	330
Total Exports	305	305	250	217	500	680
Human Dom. Consumption	1957	1957	1960	1960	1961	1962
Other Disappearance	12	12	14	14	14	16
Total Use	1969	1969	1974	1974	1975	1978
Ending Stocks	304	304	332	465	277	316
Total Distribution	2578	2578	2556	2656	2752	2974
(1000 MTRV)						

Trade policies:

Proposed sugar tax on sugar-sweetened beverages

On February 24, 2016, the South Africa Finance Minister announced during the Budget Speech that South Africa would be introducing a tax on sugar-sweetened beverages with effect from April 1, 2017. However, the proposed sugar tax has not yet been implemented.

The purpose of the sugar tax was argued to be one of the measures to reduce excessive sugar intake as it is linked with conditions such as obesity and diabetes. However, industry perceives such a tax to be a revenue generation initiative by the National Treasury. On July 8, 2016, the South African National Treasury published the policy document recommending that a tax on sugar sweetened beverages based on sugar content be implemented, which would result in a tax of about R2.29 per liter. In addition, it was proposed that sweetened beverages that did not apply nutritional labelling would be liable to a relatively higher tax. Click here to download the policy document. The public comment period for this policy document closed on August 22, 2016. The proposed sugar tax and policy document were heavily criticized by the South Africa Beverages Association, Coca Cola and the sugar industry, who argued that it would be largely ineffective at addressing obesity and other health related issues, and could potentially result in massive job losses.

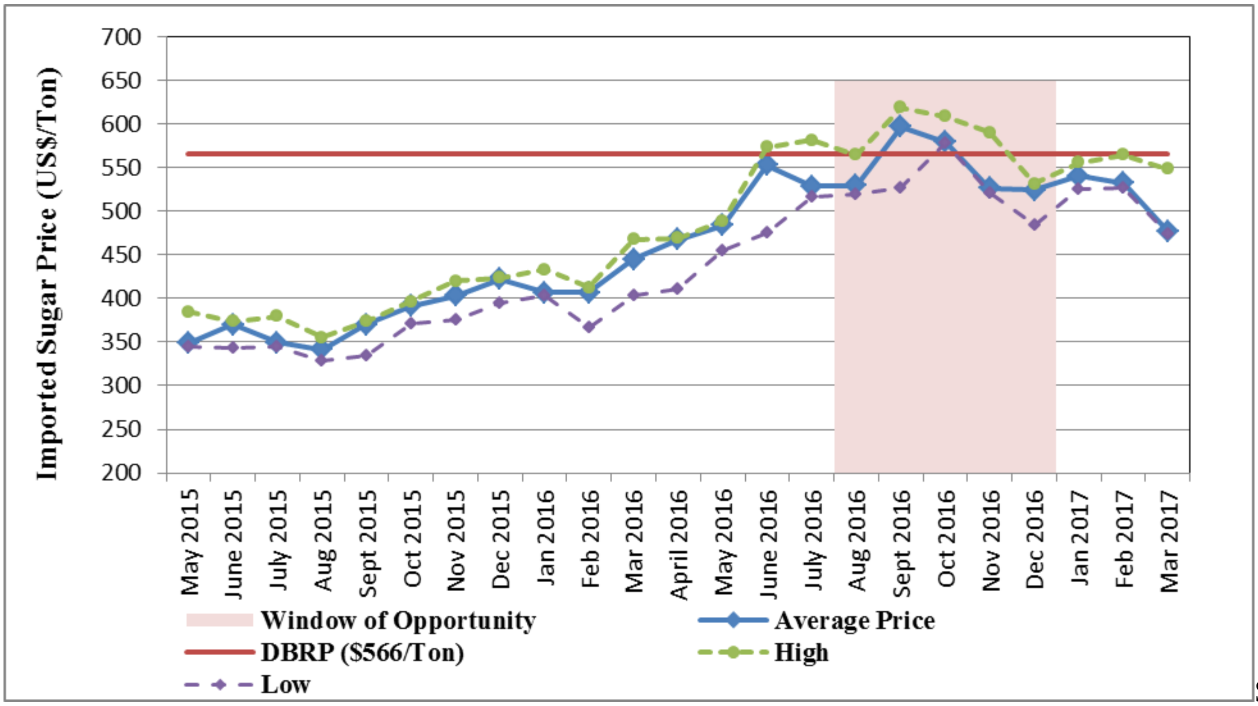
Arising from the wide criticism and comments, on February 22, 2017, the South African National Treasury published the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill for public comment and set the deadline for comments as March 31, 2017. The Bill can be downloaded on the following link, http://www.treasury.gov.za/ . Pages 24 and 25 of the published Bill detail the revised plans for a tax on sugary drinks, mainly the reduction of the sugar tax from 2.4c per 100ml to 2.1c per 100ml, and that the tax will now only apply for sweetened beverages above the 4g per 100ml threshold. Post also published a GAIN report on this bill and reported that United States beverage exports to South Africa that could be affected by the sugar tax amount to about US$5Million. Click here to download the GAIN report. Post contacts and industry anticipate that the sugar tax will only become effective in 2018, and there could be further amendments from the current proposals as consultations are still ongoing.

Import restrictions using 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. South Africa applies a 20 day moving average of the import prices to determine if a duty is applicable or not. This is reviewed monthly, but once a determination is made, there are usually delays in implementing the applicable duties. This system is open to opportunistic behavior, in instances where the average import prices are above the DBRP and not subject to a duty. Importers and traders acquire sugar at below the DBRP and ship the sugar duty free when there is a window of opportunity as shown in **Figure 2** below. This explains the high sugar imports during the 2016/17 MY. However, the triple increase in customs duties to 213.1c/kg (US$0.16/kg) from 63.63c/kg (US$0.05/kg) on September 15, 2017 is expected to decrease the imports from October 2017 to the end of the season.

For background purposes, on April, 4, 2014, the South African Revenue Service implemented the International Trade Administration 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 the South African Sugar Association (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.

Figure 2: Import Prices and Window of Opportunity for imports into South Africa



Source of Data: https://www.investing.com/commodities/london-sugar-historical-data

European Union sugar Quota

South Africa was granted an annual quota of 150,000 MT sugar to export sugar duty free to the European Union under the SADC/EU Economic Partnership Agreement that was finalized in October 2016. South Africa expects to utilize about seventy five percent of the quota in the 2017/18 MY based on the final sugar production and available stocks. However, changes in the EU domestic sugar production policy could make this market not economically viable and difficult for South Africa to compete in.

United States sugar Tariff Rate Quota (TRQ) allocation

South Africa is a beneficiary of the United States Tariff Rate Quota (TRQ) allocation, which allows it to export sugar duty free to the United States. South Africa fully utilized the allocated 24,220 MTRV quota for the 2016 FY, and will also utilize the 2017FY allocation including the additional quota reallocation of about 10,875 MTRV. South Africa confirmed that it has the capacity to export the 24,220 MTRV that it has been allocated for the 2018 FY.

Customs Import duties

Table 8 below presents the sugar customs duty as of September 29, 2017. The rate of duty is 213.1 c/kg (US$0.16/kg).

Table 8: Customs duties

Heading / Subheading	CD	Article Description	Statistical Unit	Rate of Duty (c/kg)				
				General	EU	EFTA	SADC	MERCOSUR
17.01		**Cane or beet sugar and chemically pure sucrose, in solid form:**						
1701.1		**Raw sugar not containing added flavoring or coloring matter:**						
1701.12	2	Beet sugar	Kg	213.1	213.1	213.1	213.1	213.1
1701.13	9	Cane sugar	Kg	213.1	213.1	213.1	213.1	213.1
1701.14	5	Other cane sugar	Kg	213.1	213.1	213.1	213.1	213.1
1701.9		**Other:**						
1701.91	2	Containing added flavoring or coloring matter	Kg	213.1	213.1	213.1	213.1	213.1
1701.99	3	Other	Kg	213.1	213.1	213.1	213.1	213.1

Source: South African Revenue Service.

Amendments to regulation relating to food labelling and advertising

On May 29, 2014, South Africa proposed amendments to the Foodstuffs, Cosmetics and Disinfectants Act (54/1972): Regulations relating to the Labelling and advertising of foods.
Click here to download. Post published a report on the proposed amendment,
Click here to download the GAIN report . As of October 2017, the proposed regulation amendment has not been finalized, and post contacts indicate that the volume of comments received was a lot more than anticipated.

Review of the Sugar Act and Sugar Industry Agreement

South Africa is currently in the process of reviewing the Sugar Act (Download the Act) and the Sugar Industry Agreement (Download the Agreement). The process has been underway for at least thirteen years, and it is still uncertain as to when the Department of Trade and Industry will publish the proposed amendments for public comments. The purpose of the Sugar Act is to promulgate the incorporation of South African Sugar Association (SASA) and to state the responsibility of the SASA mainly in coordinating the drafting and implementation of regulations pertaining to the production, export marketing or exportation of sugar or sugar industry products.