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Sugar Semi-annual

The supply and demand of sugar in South Africa

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Report Highlights:
Post forecasts that the South African sugar cane crop will remain flat at 14,9 MMT in the 2016/17 MY as a result of the prevailing drought conditions. Post forecasts that the 2016/17 MY sugar production will decrease by one percent to 1.611 MMT (1.667 MMTRV), from the 2015/16 MY sugar production of 1.627 MMT (1.684 MMTRV), based on the poor cane quality delivered to the sugar mills.

Commodities:

Sugar, Centrifugal
Sugar Cane for Centrifugal

Executive Summary

Post forecasts that the South African sugar cane crop will remain relatively flat at 14,9 MMT in the 2016/17 MY as a result of the prevailing drought conditions. Post forecasts that the 2016/17 MY sugar production will decrease by one percent to 1.611 MMT (1.667 MMTRV), from the 2015/16 MY sugar production of 1.627 MMT (1.684 MMTRV), based on the poor cane quality delivered to the sugar mills due to the impact of drought, pests and diseases.

Post forecasts that South Africa`s sugar exports will decrease by eleven percent to 270,000 MTRV in the 2016/17 MY due to the decrease in production and posts estimates based on year to date exports up to July 2016. Post forecasts that the 2016/17 MY imports will decrease by twenty three percent to 360,000 MTRV based on the decrease in sugar imports from Swaziland which is also affected by the drought, and the effect of the customs duty at the back of the weak rand and higher global sugar prices.

South Africa's net sugar consumption is forecasted to remain level at 1,957 MMTRV in the 2016/17 MY based on the low economic growth forecasted at below one percent and the impact of high food inflation on sugar prices and consumer demand. Post forecasts that the 2016/17 MY ending stocks of sugar will decrease by seventy percent to 91,000 MTRV, based on the decrease in sugar production and lower opening stocks.

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 Canegrowers	http://www.sacanegrowers.co.za
South African Revenue Services	www.sars.gov.za
Department of Energy	www.energy.gov.za

MMT – Million metric tons
MMTRV – Million metric tons raw value
MY – Marketing Year (April – March)

<u>Sugar cane</u>
Production

Post forecasts that the South African sugar cane crop will remain relatively flat at 14,9 MMT in the 2016/17 MY as a result of the prevailing drought conditions, lower yields and limited irrigation water in the fully irrigated Mpumalanga region and partially irrigated Kwa –Zulu Natal cane growing areas. The 2015/16 MY sugar cane production has been slightly revised upwards to 14.9 MMT based on final industry data. The 2014/15 MY sugar cane production remains unchanged at 17.8 MMT based on final industry data. **Table 1** below illustrates the sugar cane production statistics up to the 2016/17 MY.

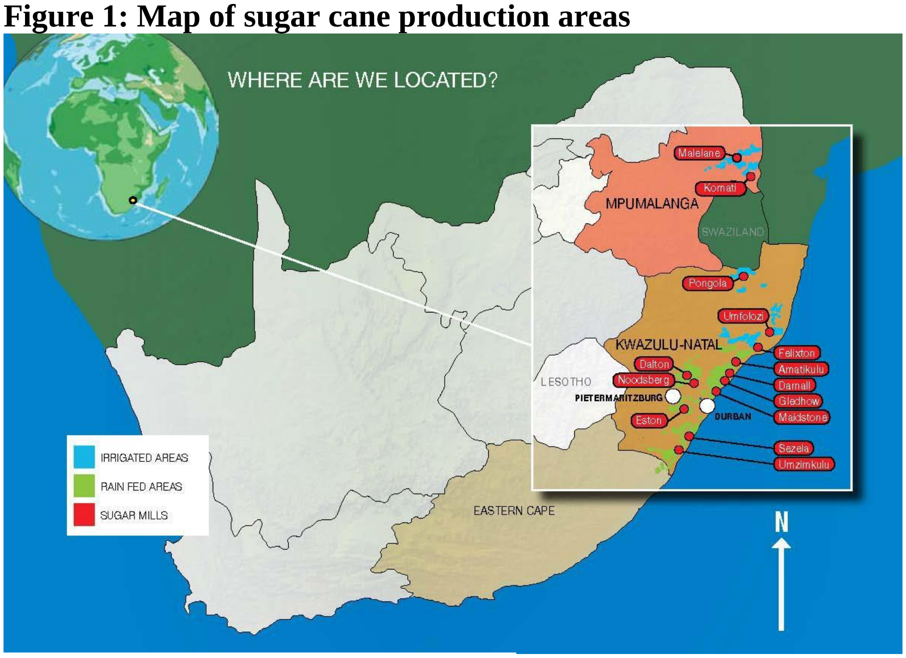
Table 1: The production of sugar cane in South Africa

Marketing years	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (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 (Estimate)	360,000	262,000	57.0	14,936,159	1,610,690	9.3

*****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 95 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 currently 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 (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 as the pricing policy and the framework are still under review and are not attractive to the sugar industrry.

Table 2: PS&D for sugar cane

Sugar Cane for Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2014		Apr 2015		Apr 2016	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	382	382	340	370	330	360
Area Harvested	273	273	245	258	240	262
Production	17,756	17,756	14,861	14,861	14,400	14,936
Total Supply	17,756	17,756	14,861	14,861	14,400	14,936
Utilization for Sugar	17,756	17,756	14,861	14,861	14,400	14,936
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	17,756	17,756	14,861	14,861	14,400	14,936
(1000 HA) ,(1000 MT)						

Source: South African Canegrowers; South African Sugar Association and Post data

Sugar

Production

Post forecasts that the 2016/17 MY sugar production will decrease by one percent to 1.611 MMT (1.667 MMTRV), from the 2015/16 MY sugar production of 1.627 MMT (1.684 MMTRV), based on the poor cane quality delivered to the sugar mills due to the impact of the drought, pests and diseases. The 2014/15 MY sugar production remain unchanged at 2.12 MMT (2.192 MMTRV), based on final industry data at the back of a normal season.

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

South Africa's net sugar consumption is forecasted to remain level at 1,957 MMTRV in the 2016/17 MY based on the low economic growth forecasted at below one percent and the impact of high food inflation on sugar prices and consumer demand. The 2014/15 MY consumption remains unchanged at 1,952 MMTRV based on final industry data and post workings.

The South African Customs Union (SACU) is the primary market for the South African sugar industry. Post forecasts that the 2016/17 MY sugar supply by South Africa to SACU will remain level at 1.591 MMT (1.702 MMTRV), based on the low economic growth forecasts in the region and the available sugar production. The 2015/16 MY estimated sugar sales has been revised downwards to 1.591 MMT (1.702 MMTRV) based on updated industry data. The 2014/15 MY sugar sales remain unchanged at 1.555 MMT (1.663 MMTRV) based on industry data. **Table 3** below contains South African sugar sales into the SACU market from the 2012/13 MY to 2015/16 MY.

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

MT *	2012/13	2013/14	2014/15	2015/16
White sugar	1,200,970	1,156,505	1,169,842	1,205,069
Brown sugar	409,712	393,409	384,762	386,077
Total sales	**1,610,682**	**1,549,914**	**1,554,604**	**1,591,146**
Direct sales	877,553	788,553	744,589	698,383
Industrial sales	733,128	761,361	810,015	892,763
Total sales	**1,610,681**	**1,549,914**	**1,554,604**	**1,591,146**
MTRV	**1,723,429**	**1,658,408**	**1,663,426**	**1,702,526**

*Refined x 1.07 = Raw value.
Source: South African Sugar Association

Sugar in South Africa is primarily used for direct human consumption, as well as for industrial purposes e.g. as an ingredient to producing beverages such as coke. Some sugar mills produce minimal downstream products such as furfuryl, furfural and industrial alcohol.

Exports

Post forecasts that South Africa`s sugar exports will decrease by eleven percent to 270,000 MTRV of sugar in the 2016/17 MY due to the decrease in production, low available sugar stocks and post estimates based on the year to date exports up to July 2016. Post revised downwards the 2015/16 MY exports to about 305,000 MTRV based on the final Global Trade Atlas (GTA) data at the back of the low sugar production in the 2015/16 MY. The 2014/15 MY, exports remains unchanged at 772,708 MTRV based on GTA data.

South Africa only exports surplus sugar after satisfying the domestic market. The South African Customs Union (non-sugar producing countries, namely, Namibia, Botswana, Lesotho), United States, and countries in sub-Saharan Africa are currently the main export markets for South African raw sugar exports. South Africa`s raw sugar exports are highly sensitive to drought conditions. The major market for South Africa`s refined sugar exports is sub-Saharan Africa. Exports of raw and refined sugar are shown in **Table 4** and **Table 5**, respectively.

Table 4: Export Trade Statistics – Raw Sugar

South Africa Export Statistics
Commodity: Sugar Raw, Raw Sugar Codes

Year Ending: March				
Partner Country	**Unit**	**Quantity**		
		2013/14	**2014/15**	**2015/16**
World	T	527,785	408,343	157,806
Namibia	T	33,321	110,049	98,035
United States	T	0	46,410	23,087
Botswana	T	14,998	24,049	19,249
Lesotho	T	7,378	16,242	14,355
Mozambique	T	20,472	17,641	2,086
Swaziland	T	122	498	419
Israel	T	1,354	770	198
Angola	T	1,565	64	131
Zimbabwe	T	46,980	1,906	110
Other Countries	T	7,100	0	36
St. Helena	T	37	35	33
Yemen	T	10	4,283	15
Congo Dem. Rep.	T	4	165	13
Zambia	T	103	82	6
Indonesia	T	197,297	20,000	0
Japan	T	121,000	30,000	0
Australia	T	28,200	26,012	0
Romania	T	0	8,800	0
Malaysia	T	0	27,550	0
Uganda	T	2,500	1	0
Kenya	T	275	37	0
India	T	17,850	0	0
Rwanda	T	1,000	0	0
Bangladesh	T	0	73,650	0
New Zealand	T	26,200	0	0

Source: Global Trade Atlas (GTA)

Table 5: Export Trade Statistics – Refined Sugar

South Africa Export Statistics
Commodity: Refined Sugar (HS170199, 170191), HS170199, 170191

Year Ending: March				
Partner Country	**Unit**	**Quantity**		
		2014	**2015**	**2016**
World	T	318,170	340,528	136,975
Mozambique	T	95,699	107,432	51,618
Botswana	T	16,520	37,837	23,013
Angola	T	42,235	41,330	12,757
Namibia	T	2,605	5,810	10,353
Zimbabwe	T	57,485	43,260	9,643
Madagascar	T	20,641	17,305	9,155
Lesotho	T	1,342	5,549	4,748
Comoros	T	3,406	4,092	3,438
Congo Dem. Rep.	T	4,041	5,912	2,335
Mayotte	T	2,234	2,386	2,165
Kenya	T	10,827	44,621	2,141
Ghana	T	4,821	6,155	2,120
Other Countries NES	T	0	301	1,533
Uganda	T	10,101	7,841	801
Israel	T	0	0	421
Singapore	T	0	0	150
United States	T	128	185	120
Senegal	T	120	475	100
China	T	0	0	74
Zambia	T	1,132	112	72
Malawi	T	14	67	40
St. Helena	T	31	11	39
Swaziland	T	21	102	39
Seychelles	T	234	977	26
Nigeria	T	2	2	20
Australia	T	2	5	9
Netherlands	T	7	78	8
United Arab Emirates	T	5	3	6

Source: GTA

Imports

Post forecasts that the 2016/17 MY imports will decrease by twenty three percent to 360,000 MTRV due to the decrease in sugar imports from Swaziland which is also affected by the drought, post estimates based on the lower year to date imports, and the effect of customs duty at the back of a weak rand and higher global sugar prices. The 2015/16 MY imports have been revised downwards to 469,680 MTRV based on final GTA data. The 2014/15 MY imports remains unchanged at 505,927 MTRV based on the updated GTA data. South Africa`s sugar import figures remain high due to the inclusion of the SACU trade statistics. Imports from Swaziland accounted for 84 percent of the total South African sugar imports in the 2015/16 MY. The impact of increasing the Dollar Based Reference Price and the customs duties on sugar has been effective in significantly decreasing sugar imports into South Africa from Brazil.

Table 6: Import Trade Statistics – Raw Sugar

South Africa Import Statistics				
Commodity: Sugar Raw, Raw Sugar Codes				
Year Ending: March				
Partner Country	**Unit**	**Quantity**		
		2013/14	**2014/15**	**2015/16**
World	T	209,013	352,179	362,088
Swaziland	T	100,743	300,390	331,907
Brazil	T	98,053	30,554	15,552
Zambia	T	0	8,798	9,991
Other Countries	T	416	850	1,044
Poland	T	0	0	1,000
Saudi Arabia	T	0	0	648
Thailand	T	5,658	7,906	627
Namibia	T	268	569	391
United Arab Emirates	T	0	0	336
United States	T	10	0	260
Germany	T	70	90	135
Lesotho	T	1	37	130
Mauritius	T	66	66	44
Netherlands	T	16	8	8
India	T	2,478	1,604	5

* Source: GTA

Table 7: Import Trade Statistics – Refined Sugar

South Africa Import Statistics
Commodity: Refined Sugar (HS170199, 170191), HS170199, 170191
Year Ending: March

Partner Country	Unit	Quantity		
		2014	2015	2016
World	T	365,399	143,690	100,553
Brazil	T	315,438	93,699	59,165
Swaziland	T	10,031	28,604	16,732
Malawi	T	0	8,290	8,210
Zambia	T	0	6,694	6,195
India	T	4,641	5,343	3,168
Thailand	T	3,980	459	2,510
Poland	T	0	0	2,200
United Arab Emirates	T	2,097	0	1,200
United Kingdom	T	135	88	429
Pakistan	T	125	130	270
Other Countries NES	T	0	2	135
Zimbabwe	T	0	1	118
Botswana	T	82	109	73
Germany	T	8	5	42
Lesotho	T	0	0	34
United States	T	5	12	20
Colombia	T	0	2	13
China	T	2	11	10
Belgium	T	44	16	10
Taiwan	T	1	4	5
Netherlands	T	135	185	3

Source: GTA

Stocks

Post forecasts that the 2016/17 MY ending stocks of sugar will decrease by seventy percent to 91,000 MTRV, based on the decrease in sugar production and the low opening stocks. The 2015/16 MY ending stocks have been slightly changed downward to 304,000 MTRV based on the lower than anticipated imports. The 2014/15 MY stocks remain unchanged at 424,000 MTRV based on final industry data.

Table 8: PS&D for sugar

Sugar, Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	May 2014		May 2015		May 2016	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	460	460	424	424	306	304
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,192	2,192	1,684	1,684	1,660	1,667

Total Sugar Production	2,192	2,192	1,684	1,684	1,660	1,667
Raw Imports	352	352	375	362	390	300
Refined Imp.(Raw Val)	154	154	110	108	110	60
Total Imports	506	506	485	470	500	360
Total Supply	3,158	3,158	2,593	2,578	2,466	2,331
Raw Exports	408	408	170	158	170	150
Refined Exp.(Raw Val)	364	364	150	147	150	120
Total Exports	772	772	320	305	320	270
Human Dom. Consumption	1,952	1,952	1,957	1,957	1,957	1,957
Other Disappearance	10	10	10	12	10	13
Total Use	1,962	1,962	1,967	1,969	1,967	1,970
Ending Stocks	424	424	306	304	179	91
Total Distribution	3,158	3,158	2,593	2,578	2,466	2,331
(1000 MT)						

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. The purpose of the sugar tax has largely been motivated by efforts from the Ministry of Health to reduce excessive sugar intake as it is linked with conditions such as obesity and diabetes, however, industry perceives such a tax to be an industry 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, sweetened beverages that do not apply nutritional labelling would be liable to a relatively higher fixed gram of added (free) sugar of 151.52 grams per liter. Click here to download the policy document. The comments period for this policy document closed on 22 Aug 2016, and it is expected that stakeholder workshops would be held in November 2016, and thereafter the final implementation policy will be published. The proposed sugar tax has come under heavy criticism from the South Africa Beverages Association, Coca Cola and the sugar industry, who have cited that it would be largely ineffective in addressing obesity and other related health issues, as well as its potential to result in massive job losses.

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. The DBRP and the depreciating Rand are the main reasons for the decreases in imports from Brazil over the last two marketing years.

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.

Customs Import duties

Table 9 below presents the sugar customs duty as at September 26, 2016. The rate of duty is 31.89c/kg (US$0.02/kg). Click here to download the complete SARS Customs Schedule as at September 26, 2016. South Africa significantly reduced the sugar customs duty from 245.4c/kg to 31.89c/kg in 2016.

Table 9: **Customs duties**

				Rate of Duty (c/kg)			
Heading/ Subheading	**CD**	**Article Description**	**Unit**	**General**	**EU**	**EFTA**	**SADC**
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	31.89	31.89	31.89	31.89
1701.13	9	Cane sugar	Kg	31.89	31.89	31.89	31.89
1701.14	5	Other cane sugar	Kg	31.89	31.89	31.89	31.89
1701.9		**Other:**					
1701.91	2	Containing added flavoring or coloring matter	Kg	31.89	31.89	31.89	31.89
1701.99	3	Other	Kg	31.89	31.89	31.89	31.89

Source: South African Revenue Service.

EU Free Trade Agreement

South Africa could be granted an annual quota of 150,000 MT sugar to export duty free to the European Union under the SADC/EU Economic Partnership Agreement which is still to be finalized and implemented. Industry is still uncertain on the final date of implementation.

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. South Africa confirmed that it has the capacity to export the 24,220 MTRV that it has been allocated for the 2017 FY.

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 . The proposed regulation amendment has not been finalized, and post contacts have indicated 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.