



USDA Foreign Agricultural
Service

GAIN Report

Global Agriculture Information

Required Report - public distribution

Date: 10/2/2006

GAIN Report Number: SF6039

South Africa, Republic of

Sugar

Semi-annual report

2006

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Report Highlights:

After producing about 21 million tons of sugar cane during the 2005/06 milling season, production is expected to reach 21.4 million tons this year. Sugar production amounted to 2.6 million tons raw value in 2005/06 but is expected to decline to 2.5 million tons in 2006/07. Exports exceeded 1.2 million tons in 2005/06 and are likely to reach this target again this year. Export prices increased dramatically last year and are holding up well so far this season. Coupled with a weakening SA Rand, industry income can only improve.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Pretoria [SF1]
[SF]

Summary

After producing about 21 million tons of sugar cane during the 2005/06 season, production this year is expected to reach 21.35 million tons. Sugar production amounted to 2.6 million tons raw value in 2005/06 but is expected to decline to 2.5 million tons in 2006/07. Exports exceeded 1.2 million tons in 2005/06 and are likely to reach this target again this year. More important is that the import tariff on sugar was cut to zero on March 16, 2006. This mainly reflected the higher international prices as the tariff is based on international price movements. The higher international prices are causing the industry to revise its plans. The proposed EU production cuts and the switch from edible sugar to ethanol production in Brazil will likely support world prices at these higher levels affecting the economics of ethanol production.

www.sugar.org.za

US \$1 = Rand 6.05 (04/20/2006)

US \$1 = Rand 6.75 (10/02/2006)

Sugar Cane

PSD Table

Country	South Africa					
Commodity	Sugar Cane					
1000 HA	2005	Revised	2006	Estimate	2007	Forecast
1000 MT	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin	04/2004		04/2005		04/2006	
Area Planted	429	425	430	428	0	429
Area Harvested	322	316	325	331	0	330
Production	19095	19095	21492	21052	0	21351
TOTAL SUPPLY	19095	19095	21492	21052	0	21351
Utilization for Sugar	19095	19095	21492	21052	0	21351
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	19095	19095	21492	21052	0	21351

Production

After the poor rainfall in recent seasons, the return to near average rainfall during the 2005/06 season was welcome. This resulted in a cane crop of 21 million metric tons, representing an increase of 1.95 million tons (10.25%) over the previous season. Tell Quell sugar production amounted to 2.5 million tons, an increase of 12.6% on the previous season. The improvement in the cane to sugar ratio can partly be attributed to improved cane quality.

The 2006/07 season was characterized by a late start to the rainfall season followed by heavy rains since mid December 2005. The drought and irrigation water shortage in Mpumalanga was comprehensively broken. The only negative impact on the crop was the lack of sunlight and heat caused by the incessant rain. That is why we see a higher cane/sugar ratio because of the lower sucrose content in the cane. At this stage the estimate is for a 21.35 million ton cane cut producing 2.46 million tons of Tell Quell sugar.

The following table contains production details:

Season	Area Planted HA	Harvested HA	Yield MT/HA	Cane crushed MT	Sugar prod. MT*	Cane/sugar ratio
2002/03	430 106	321 234	71,64	23 012 554	2 762 885	8.33
2003/04	426 861	325 956	62,64	20 418 933	2 419 287	8.44
2004/05	424 907	316 010	60.42	19 094 760	2 234 890	8.54
05/06 est.	428 372	330 515	63.7	21 052 266	2 507 203	8.40
06/07 forc.	429 000	330 000	64.7	21 351 000	2 458 000	8.69

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

Cane prices

Through the revenue sharing arrangement between millers and growers, growers are paid a share of industry proceeds. Outlined below are recent recoverable value (RV) prices paid by millers to growers together with the cane price at average recoverable values for the industry. The RV price is basically the sucrose price plus some quality parameters. Revenue earned in the various markets determines prices for the year. With the remarkable recovery in the international sugar market brought about by the energy crisis, prices for the 2006/07 season have improved considerably.

SA Rand/MT.	RV Price	Cane Price	Cane/sugar ratio
2002-2003	1 368.79	171.78	8.33
2003-2004	1 357.01	169.08	8.44
2004-2005	1 297.19	159.55	8.54
2005-2006	1 389.80	173.59	8.40
2006-2007	1 667.70	195.00	8.69

At a 2005/06 final price of R1,389.80 per ton RV, 7% more than in the previous season, earnings for the cane-growing sector of the sugar industry amounted to R3.65 billion. The main drivers affecting the RV price are the world price and the R/US\$ exchange rate.

The higher RV price provides an opportunity for cane growers to consolidate and reduce debt levels given the tough financial conditions of the past few seasons. The improved price will provide an opportunity to repair the neglected production base of the industry.

However, despite the improved 2005/06 international prices, the average local market price achieved was still static. When the full benefit of the improvement in export and domestic sugar revenue comes into effect in 2006/07, this will represent a price bonanza.

Alternative Uses for Sugar Cane

The CANE GROWERS association continued to lobby within the Sugar Industry and government regarding its policies on renewable energy from sugar cane. This, amongst other factors, led to the establishment of an Industry Renewable Energy Development (RED) Committee, which is interacting with government and other stakeholders. Increasing energy demands, with limited sources of supply, continues to highlight the relevance of fuel grade ethanol and electricity generated within the sugar mills. Government support is required, however, to make it a reality.

Centrifugal Sugar

Commodity 1000 MT	Sugar,					
	2005	Revised	2006	Estimate	2007	Forecast
	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin	04/2004		04/2005		04/2006	
Beginning Stocks	870	870	920	860	980	850
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2360	2315	2665	2595	0	2544
TOTAL Sugar Production	2360	2315	2665	2595	0	2544
Raw Imports	0	0	0	0	0	0
Refined Imp. (Raw Val)	245	245	250	200	0	176
TOTAL Imports	245	245	250	200	0	176
TOTAL SUPPLY	3475	3430	3835	3655	980	3570
Raw Exports	750	632	950	940	0	900
Refined Exp. (Raw Val)	270	378	350	290	0	310
TOTAL EXPORTS	1020	1010	1300	1230	0	1210
Human Dom. Consumption	1530	1555	1550	1570	0	1580
Other Disappearance	5	5	5	5	0	5
Total Disappearance	1535	1560	1555	1575	0	1585
Ending Stocks	920	860	980	850	0	775
TOTAL DISTRIBUTION	3475	3430	3835	3655	0	3570

Production

The 2005/06-sugar production amounted to 2.507 million metric tons Tell Quell (2.595 million MTRV), compared to the actual 2004/05 production of 2.235 million tons, (2.315 million MTRV). This increase was due to a return to 'normal' production. A very similar scenario is foreseen for the current 2006/07 milling season. The industry expects that 2.46 million tons Tell Quell sugar (2.54 million MTRV) will be produced from 21.35 million tons of cane.

Consumption

Sugar supplies into the Southern African Customs Union (SACU) have changed markedly since the early 1990's, when South Africa was the main supplier with over 95% of market share. In the meantime the market was opened up to both Swaziland and to Southern African Development Community (SADC) sugar producers, and South Africa's share of the regional market is currently below 80%. In addition, the general import duty was cut to Zero on April 13, 2006. This was based on the formula calculation used to determine the tariff and the high current international sugar prices.

The increased flow of sugar from the region into South Africa has had a significant impact on the South African sugar industry. The demand for sugar in the region has grown by roughly 1% per annum over 10 years, with demand closely correlated to growth in real disposable income and growth in gross domestic product. Domestic supplied local consumption amounted to 1.3 million MTRV in 2004/05 to which the

imports of 245,000 tons must be added for a total of 1.557 million tons. In 2005/06 local sales amounted to 1.375 million MTRV to which imports of about 200,000 are added for a total of 1.575 million MTRV. The following table contains domestic sales without the imports.

MT	2003/04	2004/05	2005/06
White sugar	926,951	1,073,867	1,112,153
Brown sugar	174,651	194,112	215,640
Direct sales	670,214 =60.4%	785,538 =61.9%	810,017 =61.0%
Industrial sales	431,388 =31.9%	482,441 =32.3%	517,776 =32.4%
Total sales	1,101,602	1,267,979	1,327,793
MTRV	1,140,158	1,312,358	1,374,265

Trade

The South African Revenue Service (SARS) reports the following exports over the previous two seasons.

Exports

Country	South Africa		
Commodity	Sugar, Centrifugal		
Time Period	April/March	Units:	MT
Exports for:	2004/05		2005/06
U.S.	23 405	US	55 323
Others	Others		
Japan	163 000	Japan	213 000
South Korea	140 000	South Korea	140 000
Mozambique	112 151	Iran	187 000
Saudi Arabia	79 000	Indonesia	173 455
Kenya	74 229	Kenya	52 614
India	73 822	Bangladesh	32 000
Malaysia	49 000	Egypt	31 000
Tanzania	37 325	Tanzania	26 053
Mauritius	37 059	Mozambique	20 176
Madagascar	33 731	Madagascar	23 802
Total for Others	799 317		899 100
Others not Listed	135 903		145 759
Grand Total	958 625		1 100 182

According to the South African Sugar Association, (SASA), South Africa exported 940,000 tons of raw sugar and 270,000 tons of refined (290,000 MTRV) for a total of 1.23 million MTRV in MY 2005/06 compared to 632,000 tons of raw and 353,000 tons of refined (378,000 MTRV) totaling 1,010,000 MTRV in MY 2004/05. Details are not yet available, but the difference may be due to raw value calculations.

Published imports amounted to 43,013 tons in MY 2004/05 and 41,368 in 2005/06. Imports from Swaziland shown in the trade matrix are estimated as trade amongst Customs Union members are not recorded.

Import Trade Matrix

Country	South Africa			
Commodity	Sugar, Centrifugal			
Time Period	April/March	Units:	MT	
Imports for:	2004/05		2005/06	
U.S.	45	U.S.	48	
Others		Others		
Brazil	13 984	Brazil	21 292	
Zimbabwe	12 615	Zimbabwe	1 200	
Malawi	8 613	Malawi	7 010	
Zambia	7 309	Zambia	4 780	
Swaziland*	202 144	Switzerland	6 500	
		Swaziland*	158 632	
Total for Others	244 665		199 414	
Others not Listed	490		538	
Grand Total	245 200		200 000	

World Sugar Market and Price

During 2005/06, 49% of the total South African sugar production was exported. Improved world market conditions, particularly during the latter part of the 2005/06 season, resulted in a significantly higher sugar price (10.20 USc/lb) for the season compared with 7.74 USc/lb the previous season, an increase of 32%. As a result, export market proceeds increased by approximately R1.9 billion.

As in past pricing peaks, improvements in supply and reduction in demand at the higher prices will bring the market price down. World prices already showed some correction in August 2006. This time, however, analysts believe that ethanol will moderate the decline in sugar price and hopefully create a floor price at about 14 US c/lb. This expectation is based on the fact that at prices of 14 to 14.5 US c/lb the production of ethanol rather than sugar becomes more profitable for Brazilian millers. Brazil is such a dominant player in the world market that a shift in its production towards ethanol has a marked effect on sugar supplies on the world market.

Domestic prices

In regional trade, the local market is still the most important source of income. Protecting and growing the domestic market, and thereby minimizing exposure to the world market, remains a major priority for the Sugar Industry. These efforts require careful consideration, as they are required to meet the developmental and trade objectives of the SADC protocol (about 50,000 tons) and the SACU free

market arrangement. In this context the Swaziland Sugar Protocol is of vital importance to the region as it is intended to ensure equitable access to the SACU market from the regions' two main producers, South Africa and Swaziland.

During the 2004/2005 season Swaziland chose to disregard the market access agreement and supplied the domestic market with approximately 60,000 tons of sugar over and above their agreed access tonnage. The short-term effect on the South African farmers' was that it displaced an equivalent tonnage of South African sugar onto the world market.

Sugar prices in SACU are established in a regulated environment determined by the duty payable on sugar imports, recently cut to zero. Millers, who sell the sugar domestically, compete against each other in the market, but also face competition from SADC countries, Swaziland, and world price imports from other origins. Domestic sugar prices have historically tended to increase at below the consumer price index. In 2003 sugar prices decreased with millers reporting a 7% decline following the strengthening of the Rand. In general, ex-factory sugar prices have remained mainly unchanged since 2003 due to the current strengthening of the Rand.

The current ex-factory refined sugar price is about R3,500/MT or R3.50/kg or \$457/MT or 46 US cents/kg. at the current exchange rate of US\$1=R7.65.

The only protection the industry enjoyed was the import tariff, which is based on the price formula administered by the Department of Trade and Industry. The dollar based reference price system was established by the DTI on the basis of a 10 year average of the No. 5 world refined sugar price adjusted for certain elements. On September 23, 2005, the formula kicked in and the import tariff for sugar was cut from 55 c/kg (R550/ton) to 23.3 c/kg (R233/ton). In US\$ terms the tariff was \$86.6/ton which was cut to \$36.7/ton. On March 16, 2006 the high world sugar price caused the formula to kick in again and the import tariff was reduced from the 23.3 c/kg. to free. All protection has thus been removed.

POLICY

The South African Sugar Industry is an income sharing partnership between Millers and Growers established in 1935 and consists of two members, the SA Cane Growers' Association and the SA Sugar Millers' Association Limited.

The South African Sugar Association was established in accordance with the Sugar Act. The Act provides for an Agreement to regulate the affairs of the sugar industry, binding upon all those who grow sugarcane and produce sugar and associated sugar products. The Sugar Act has been amended from time to time in response to changing circumstances and is currently under review. The Sugar Industry Agreement covers the following:

Administration of cane production, Co-ordination of the supply of sugarcane to the mills, Dispute resolution structures, Disposal of the raw sugar available for export by SASA on behalf of the industry, Pooling of proceeds from the sale of sugar and molasses and the division of the net proceeds between the growing and milling

sections, The calculation of the price payable for cane deliveries and the imposition of levies to cover the cost of the administration of the industry by SASA;

The Division of Proceeds is the formula through which revenue is allocated to the millers and growers as part of the partnership arrangement. The proceeds from the sale of sugar in the national market, raw export sugar and molasses comprise total industrial proceeds. Total proceeds are determined by the size of the crop and the prices achieved. Prices for sugar and molasses are dependent on market conditions both locally and abroad as well as the Rand/dollar exchange rate. Outlined below is recent recoverable value (RV) prices paid by millers to growers together with the cane price at average recoverable values for the industry. The RV price is basically the sucrose price plus some quality parameters. With the remarkable recovery in the international sugar market brought about by the energy crisis, prices for the 2006/07 season have improved considerably.

SA Rand/MT	RV Price	Cane price
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2006-2007	1 667.70	195.00

During 2005/06, 49% of the total South African sugar production was exported. Improved world market conditions, particularly during the latter part of the 2005/06 season, significantly improved the average sugar price achieved. The average price was 10.20 USc/lb for the season compared with 7.74 USc/lb the previous season, an increase of 32%. As a result, export market proceeds increased by approximately R1.9 billion. The current ex-factory refined sugar price is about R3,500/MT. or R3.50/kg. or \$457/MT or 46 US cents/kg. at the current exchange rate of US\$1=R7.65.

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