



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information
Network

Required Report - public distribution

Date: **5/3/2006**

GAIN Report Number: **WZ6001**

Swaziland

Sugar

Annual Report

2006

Approved by:

Scott Reynolds

U.S. Embassy, South Africa

Prepared by:

Herman Germishuis

Report Highlights:

Swaziland produced 598,000 metric tons of raw sugar during the 2005/06 milling season but is expected to produce 650,000 tons during the current, 2006/07 season. This is mainly due to the two-year drought being broken. Exports reached about 305,000 tons in 2005/06 but the industry is hoping to export about 358,000 tons in 2006/07 to take advantage of the high world price. The industry was in real trouble with the EU sugar regime adjustments but the increase in the world sugar price and the demand for Ethanol is opening up new opportunities.

**Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Pretoria [SF1]
[WZ]**

Summary

The marketing year used in this report runs from April to March with the 2005/06 season designated as 2006 and the 2006/07 season shown as 2007.

Swaziland's 2005/06 sugar cane crop reached about 5.2 million tons after 4.9 million tons were cut in 2004/05. The 2006/07 cut is estimated at 5.2 million tons. Sugar production reached about 653,000 tons in 2005/06 after 598,000 tons were produced in 2004/05. The 2006/07 forecast is 650,000 tons.

Southern African Customs Union, (SACU), sales reached about 315,000 tons in 2005/06 after about 311,000 tons were sold in 2004/05. The Customs Union sales include domestic consumption of about 150,000 tons (including further processed products) with the rest going to South Africa. Other, mostly preferential, export sales reached about 320,000 tons in 2005/06 after 298,000 tons were exported in 2004/05. As the 2005/06 marketing year only closed at the end of March 2006, detailed information is not yet available. Swaziland's intention is to export about 358,000 tons in 2006/07. The new European Union sugar regime is of great concern to the industry but the higher world prices and the demand for Ethanol are positives.

Source; Swaziland Sugar Association

www.ssa.co.sz

US Dollar = Rand 6.05 = Emalangeni 6.05 (05/03/06)

Sugar cane

PSD Table

Country	Swaziland					
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	50	51	51	52	0	52
Area Harvested	47	48	48	51	0	51
Production	4444	4884	5185	5164	0	5215
TOTAL SUPPLY	4444	4884	5185	5164	0	5215
Utilization for Sugar	4444	4884	5185	5164	0	5215
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	4444	4884	5185	5164	0	5215

Production

The current, 2006/07, sugar cane crop in Swaziland, for which the milling season started in April 2006, is expected to be about 1% larger than the 2005/06 crop. The increase is mainly due to the fact that the serious drought was broken and irrigation water supplies increased as all cane in Swaziland is irrigated. The average yield is expected to be about 103 tons per hectare compared to 102 in 2005/06. The following table contains recent production data:

	My 2002/03	My 2003/04	My 2004/05	My 2005/06	My 2006/07 (Estimate)
Area, ha.	48,307	49,932	50,930	52,196	52,202
Harvested	45,126	48,061	49,727	50,595	50,718
Cane prod. MT	4,609,933	5,046,252	4,883,961	5,164,174	5,215,000
Cane yield MT/ha.	102.13	105.00	98.2	102.1	102.8
Sugar prod. MTRV	538,014	628,191	597,563	652,689	650,000

Centrifugal sugar.

PSD Table

Country	Swaziland					
Commodity	Sugar,					
1000 MT	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	87	87	67	76	90	94
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	598	598	636	653	0	650
TOTAL Sugar Production	598	598	636	653	0	650
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	685	685	703	729	90	744
Raw Exports	297	293	287	304	0	325
Refined Exp.(Raw Val)	1	5	1	16	0	33
TOTAL EXPORTS	298	298	288	320	0	358
Human Dom. Consumption	319	310	325	314	0	317
Other Disappearance	1	1	0	1	0	1
Total Disappearance	320	311	325	315	0	318
Ending Stocks	67	76	90	94	0	68
TOTAL DISTRIBUTION	685	685	703	729	0	742

Production

Sugar production is expected to reach 650,000 MT raw value in the current, 2006/07 milling season. This is marginally less than the 652,689 tons produced in 2005/06 in spite of a small increase in cane production mainly due to lower sucrose in the cane brought about by the lack of sunlight over the past few months.

Trade

The Swazi sugar industry sells into four main markets, the Southern African Customs Union, (SACU), the European Union, the United States and the world market. Sales to both the EU and US benefit from preferential market access allowances.

Exports sales are expected to reach 358,000 tons in MY 2006/07 compared to 320,000 tons in 2005/06 and 298,000 tons in 2004/05. Refined exports are expected to grow significantly from 16,000 MT in 2005/06 to 33,000 MT in 2006/07 as a result of the increased world price. Export details are not yet available.

Consumption

Domestic consumption is shown as 311,000 tons in 2004/05, 315,000 tons in 2005/06 and is expected to reach 318,000 tons in 2006/07. These are really SACU (Southern African Customs Union) sales as Swazi sugar enjoys free entry into the market subject to an undisclosed quota agreement. In 2004/05 the industry apparently overstepped the agreement by 60,000 tons and sold more than 200,000 tons into the South African market. The 2005/06 sales are estimated at 150,000 tons and a similar quantity is expected to be supplied in 2006/07. This will, however, be influenced by the world market movements.

In 2004/05 the local cane price dropped to R1126/ton from R1375/ton in 2003/04, mainly due to the drop in international prices. Prices declined further in 2005/06 but is expected to increase again in 2006/07 as the international market increased.

The recent EU market reforms are important to Swaziland. The reforms of the EU sugar regime are primarily targeted at the internal EU market but because of its historical link with Swaziland's preferential access, its impact will be felt even more by the beneficiaries of the preferential access. Swaziland is a beneficiary of both the Sugar Protocol and the Special Preferential Sugar, both giving duty free access to Swazi sugar into the EU market.

The EU has always been an important market for Swazi sugar, dating back to the 1970s when exports to the EU members (primarily Britain) started. The EU has been taking an average of 163,057 tons per annum since 2001. Although this is 30% of the industry output of about 650,000 tons per annum, in terms of revenue it contributes about half of the total industry revenue.

Swaziland benefits from the EU market primarily because whilst on the one hand it is highly priced (at some stage about 3 times the world market price), it is also a protected market wherein preferential sellers like Swaziland can exploit the full benefit. Any change to this price and the protection therefore affects the profitability of the market.

In some years, when world market prices have been depressed, EU prices have been nearly 6 times higher than world market prices (e.g. June 2002). On these occasions this means more money is earned on exporting the 163,000 tons of sugar to the EU than could be obtained from selling Swaziland entire sugar production on the world market! Even when world market prices are exceptionally high, as is currently the case, EU prices are still higher.

In many respects, exports to the EU have provided the foundations for the expansion of the Swazi sugar sector, which is so important to the Swazi economy. Any changes in the income earned on exports to the EU thus carries important implications for Swaziland.

But, the EU market is losing some of its shine. This has already been witnessed, for since 2002 the value of the Euro against the South African Rand (to which the Emalangeni is pegged on a one to one basis) has fallen 37%. This means that, in

Emalangeneni terms, for every ton of sugar sold on the EU market, Swaziland has received 37% less than was the case in 2002. This has been the major contributing factor to a 21% decline in the sucrose price paid to Swazi farmers since 2002. This has had serious consequences for all components of the industry, from the large companies to the small growers. It also has implications for government revenues, since the tax obtained from the sugar sector is shrinking as earnings and profitability decline.

The EU has subsidized Swaziland's sugar industry since 1966 by purchasing an annual quota at a price higher than the global ruling price. However, from July 2005 the preferential prices were slashed as shown in the following table.

European Union, Changes in prices for Swazi sugar.

Year	EU price/MT (Euro)	Cumulative % change	Sugar protocol losses (Euro mill)	SPS losses (Emill)	Total losses (Emill)
2005/06	E523.7	0	0	0	0
2006/07	E496.8	-5.1%	E3.509	0	E3.509
2007/08	E496.8	-5.1%	E3.509	0	E3.509
2008/09	E434.1	-17.1%	E11.687	E2.045	E13.632
2009/01	E335.0	-36%	E24.613	E5.276	E29.889

At the large companies reduced earnings have forced management to focus on core business activities, while for many newly established smallholder sugar farmers, the decline in the sucrose price has driven many of them to the point of bankruptcy.

As an alternative outlet the Royal Swaziland Sugar Corporation (RSSC) commissioned a R134 million Ethanol project in September 2005. The aim of the project, when operational, is to expand the production capacity of the distillery from 13 million liters per year to 32 million liters of absolute potable ethanol. This will absorb all the molasses produced by the company.

The industry is looking at increasing Ethanol production to stabilize the market.