

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 6/3/2014

GAIN Report Number:

South Africa - Republic of

Post: Pretoria

Labor Strikes in the South African Sugar Sector

Report Categories:

Sugar

Approved By:

Eric Wenberg

Prepared By:

Wellington Sikuka

Report Highlights:

Post anticipate that the impact of the first labor strike in the sugar industry since 1997 will be marginal as it is the beginning of the crushing season for most mills, and cane quality and sugar recoveries by the mills are usually low at this stage. Post forecasts that if the labor strike continues for two weeks to one month it could result in a five percent decrease in the 2014/2015 MY sugar production from 2.5MMTRV to 2.4MMTRV. The decrease in sugar production is expected to result in an equivalent decrease in the 2014/2015 MY exports from 1 Million Metric Tons Raw Sugar (MMTRV) to 950,000MTRV.

General Information:

Background

The sugar industry is in the middle of the first labor strike since 1997. About 5,500 workers downed tools on 27 May 2014 at the 14 sugar mills owned by the 6 milling companies, namely Illovo Sugar RSA Ltd, Tongaat Hulett Sugar RSA Ltd, Umfolozi, Gledow Sugar Company, Tsb RSA Ltd and UCL Ltd. Workers are demanding an eleven percent salary increase, a forty hour working week and a monthly housing subsidy of R800 (US\$77) while milling companies were prepared to offer an 8.5 percent increase.

The lowest-paid sugar employees receives about R5,500 (US\$530) a month. Unionized workers have been receiving an average of 8.5 percent annual wage increases over the past three years.

Stakeholders involved in the wage negotiations

Sugar milling companies negotiate with the various trade unions as an industry via the National Bargaining Council for the Sugar Manufacturing and Refining Industry (National Bargaining Council).

The sugar industry is highly unionized with at least 75 percent of the milling company workers unionized. A total of 5,530 workers belonging to the Food and Allied Workers Union (FAWU), the National Sugar Refining and Allied Industries Union (NASARIEU), the Union of Artisans of South Africa (UASA) and a small percentage of workers who are not-affiliated to unions are participating in this strike. The biggest union is FAWU with more than 50 percent of members participating in the strike.

Industry sources advised that during the negotiations, the unions and the National Bargaining Council were at an advanced stage on agreeing an 8.5 percent increase, however, FAWU, the union representing the majority of unionized workers had subsequently continued to demand a two digit percentage increase as the majority of their members would not accept the 8.5 percent wage increase offer. This resulted in an impasse and the negotiating parties ultimately reverted to their original offers of 7.5 percent by the milling companies and 11 percent by the unions. A notice of intention to strike on May 27 was issued by all the three unions during the week ending May 23. However, on May 26, one of the unions, UASA, reported that the majority of their members were prepared to accept the 8.5 percent offer.

Anticipated duration of the strike

The strike in 1997 lasted 10 days, and industry sources anticipate that the current strike could continue for at least two weeks as further negotiations are only expected to commence during the week of 6 June 2014. However, some industry sources remain optimistic as the sugar industry is believed to be better organized and has the advantage of stakeholders who have the best interest of the industry.

Potential impact of the strike

Sugar production

Post forecasted the 2014/2015 MY sugar production at 2.5MMTRV in the GAIN Sugar Annual Report in April 2014. Post anticipate that the impact of the labor strike will be marginal if resolved in less than two weeks, because it is still the beginning of the crushing season for most mills, and cane quality and sugar recoveries by the mills are usually lower during this period. Sugar mills stop crushing cane from the end of October to the end of December and can easily extend this period by less than two weeks.

However, if the strike continues for more than two weeks to one month, this could result in mills failing to crush all the available cane and the quality of cane could deteriorate resulting in lower sugar production. As a result, post forecast that if the labor strike continues for more than two weeks to one month, the 2014/2015 MY sugar production could decrease by at least 5percent from 2.5MMTRV to 2.4MMTRV.

Exports

Post forecasted the 2014/2015 MY sugar exports at 1MMTRV. The South African sugar industry only exports surplus sugar after supplying the local market. If the labor strike continues for more than two weeks to one month, post forecast that the 2014/2015 MY exports could decrease by at least 5 percent from 1MMTRV to 950,000MTRV. This decrease is not expected to affect South Africa's capacity to utilize the allocated USA Quota and other trading partners which have already secured supply contracts, as these markets are always given the first priority when allocating sugar for exports. The South African Sugar Association (SASA) confirmed on June 3, that South Africa expects to meet its U.S. Sugar Import TRQ allocation, and will be able to supply an additional 20,000 MT if additional allocations are given later in the year. The decrease in the export tonnage is expected to result in the reduction of South African sugar sold to traders for the rest of the world market.

Cane growers

Cane growers will have to suspend all their harvesting activities until the labor strike ends and the mills open. During this period, growers will continue to incur fixed costs and will not receive any revenue as they will not deliver any cane. Quality of cane could deteriorate if left un-harvested for too long in some fields which are ready for harvest. Milling companies also keep stock piles of cane at their mills loading zones, if this cane is left uncrushed for too long, its quality is anticipated to deteriorate. As a result, cane growers could lose significant revenue due to cane quality deterioration because the South African cane payments is based on cane quality. Industry sources indicated that Cane growers are already facing significant low margins and operating cost increase pressures, and the impact of the strike could affect not only the 2014/15 MY but the 2015/2016 MY production as well.

Milling companies

While both Tongaat and Illovo reported increases in 2013/2014 MY profits compared to the previous season, they reported that considerable increases in wage costs had affected their profits from sugar operations in South Africa. A higher wage settlement is expected to continue increasing milling company operating cost pressures. In addition, should the strike continue for longer than anticipated, milling companies could extend their crushing season, resulting in additional costs, and lower sugar production as cane towards the end of the season is usually of low quality and sugar recoveries are low.

Macro-economic level

While the sugar industry only contributes less than 0.4 percent to the National Gross Domestic Product (GDP), the timing of the labor strike in the sugar industry could compound the already negative

perceptions in the market and South African economy following the statistical release on 27 May 2014 by Statistics South Africa (STATSSA) that the GDP for Q1 shrank by 0.6 percent mainly as result of decreases in mining production due to the impact of the ongoing mine workers labor strike.

The increasing labor costs faced by milling companies are expected to result in increasing sugar prices, and ultimately food costs. STATSSA reported that inflation increased to 6.1 percent in April 2014 which was higher than anticipated mainly due to higher food, fuel, and insurance and personal care costs. A higher wage settlement from the labor strike is expected to contribute to the increasing pressure on inflation.