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South Africa, Republic of

Sugar

Semi annual report

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Report Highlights:
South Africa's sugar production for the 2005/06 season is estimated at 2.7 million tons from 21.5 million tons of cane. This is better than in 2004/05 and is close to a 'normal' outcome. It will allow local sales of about 1.6 million tons and exports of about 1.3 million tons. Imports could, however, increase as the import tariff was recently cut from US$ 86.6/MT to US$ 36.7/MT.

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

Summary

Sugar cane production for the current April 2005 to March 2006 season is estimated at 21.5 million tons compared to the 19.1 million tons produced in 2004/05. The increase in production is mainly due to more favorable weather conditions. Sugar production is estimated at 2.5 million tons Tell Quell (2.7 million MTRV) compared to the 2.3 million tons (2.4 million MTRV) produced in 2004/05. Domestic consumption in 2005/06 is estimated at 1.6 million tons compared to 1.5 million in the previous season. Exports are expected to reach 1.3 million tons after a little over 1 million tons were exported in 2004/05. Imports could increase after the import tariff was recently decreased from US$86.6/MT to US$36.7/MT.

www.sugar.org.za

US$1=R6.35 (09/29/05)

Sugar cane

PSD Table

Country	South Africa,					
Commodity	Sugar Cane					
1000 HA	2004	Revised	2005	Estimate	2006	Forecast
1000 MT	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin		04/2003		04/2004		04/2005
Area Planted	345	427	435	429	438	430
Area Harvested	330	326	327	322	330	325
Production	21270	20419	19095	19095	20000	21492
TOTAL SUPPLY	21270	20419	19095	19095	20000	21492
Utilization for Sugar	21270	20419	19095	19095	20000	21492
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	21270	20419	19095	19095	20000	21492

Production

Since the general droughts of the early and mid 1990's, the industry has continued to experience regional droughts from time to time. The table below shows both cane and sugar production since 1994/95. Rainfall for the 2004/05 season was below normal through the entire industry resulting in the smallest crop since 1995/96.

At this stage prospects for the 2005/06 season are more favorable with the sugar cane yield expected to exceed 65 tons per hectare yielding a cane cut of about 21.5 million tons and sugar production of about 2.5 million MT (2.7 million MT raw value).

The following table contains production details:

Season	Area planted HA	Area harvested HA	Yield (MT/HA)	Cane crushed MT	Sugar production MT *	Cane/sugar Ratio**
1994/95	392 476	284 237	55,18	15 683 277	1 657 835	9.40
1995/96	394 843	273 122	61,19	16 713 649	1 658 935	10.02
1996/97	411 296	299 655	69,92	20 950 894	2 259 696	9.23
1997/98	421 038	296 575	74,70	22 154 775	2 403 630	9.18
1998/99	416 820	316 357	72,48	22 930 324	2 638 156	8.67
1999/00	421 637	313 294	67,74	21 223 098	2 524 660	8.38
2000/01	428 822	322 858	73,95	23 876 162	2 721 562	8.75
2001/02	431 771	325 704	64,96	21 156 537	2 403 243	8.83
2002/03	430 106	321 234	71,64	23 012 554	2 754 619	8.33
2003/04	426 861	325 956	62,84	20 418 933	2 412 031	8.44
2004/05	429 045	321 571	59,59	19 094 760	2 226 869	8.54
2005/06	430 000	325 000	65.13	21 492 000	2 512 000	8.56

* Tel Quell ** Metric tons cane per ton of sugar

Cane prices

Through the revenue sharing arrangement between millers and growers, growers are paid a share of industry proceeds. 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. Prices in any year are determined by revenues earned in the various markets but are also impacted by the size of the crop whereby larger crops depress prices due to the larger portion of export sugar in the calculation and smaller crops increase prices due to the smaller proportion of export sugar. RV prices have lagged CPI and in recent seasons prices have been flat due to the strength of the Rand. The lower prices are despite the impact of the smaller crops and reduced exports in the calculation.

SA Rand/MT.	RV Price	Cane Price	Cane/sugar ratio	
1998-1999	1 046,62	125,85	8.67	
1999-2000	971,09	121,36	8.38	
2000-2001	1 105,00	130,50	8.75	
2001-2002	1 352,14	160,23	8.83	
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	R3,400*
2005-2006	1 347.80	164.57	8.56	

*Constant in Rand terms since 2003 but US$ value subject to big variations in the Rand/Dollar exchange rate.

Centrifugal sugar

Commodity	Sugar					
1000 MT	2004	Revised	2005	Estimate	2006	Forecast
	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin		04/2003		04/2004		04/2005
Beginning Stocks	586	586	950	870	765	920
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2560	2560	2370	2360	2495	2665
TOTAL Sugar Production	2560	2560	2370	2360	2495	2665
Raw Imports	0	0	0	0	0	0
Refined Imp. (Raw Val)	284	230	255	245	260	250
TOTAL Imports	284	230	255	245	260	250
TOTAL SUPPLY	3430	3376	3575	3475	3520	3835
Raw Exports	720	765	865	750	850	950
Refined Exp. (Raw Val)	305	305	325	270	350	350
TOTAL EXPORTS	1025	1070	1190	1020	1200	1300
Human Dom. Consumption	1452	1430	1615	1530	1650	1550
Other Disappearance	3	6	5	5	5	5
Total Disappearance	1455	1436	1620	1535	1655	1555
Ending Stocks	950	870	765	920	665	980
TOTAL DISTRIBUTION	3430	3376	3575	3475	3520	3835

Production

A sugar crop of 2,512 million tons Tell Quell (2.665 million MTRV) is estimated for the 2005/06 season (2004/05 actual – 2.27 million tons, 2.36 million MTRV), which extends from April 2005 to March 2006. This increase is a return to 'normal' production. Sugarcane production is estimated at 21.5 million tons for the current season (2004/05 – 19.1 million tons).

With the 2006/07 growing season only commencing in spring, it is not possible to provide a forecast for 2006/07 at this stage. The industry expects that in a normal rainfall year 2.5 million tons of sugar will be produced and the industry plans on this basis until the first estimates are received, which for 2006/07 will be in April 2006.

There is interest in the manufacture of ethanol from sugarcane by the South African sugar industry. With oil prices destined to remain at historically high levels and the emphasis on environmentally friendly fuels, future ethanol production is possible.

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 in the region with over 95% of market share. In the meantime the market was opened up and South Africa has lost market share to both Swaziland and to Southern African Development Community (SADC) sugar producers. South Africa's share of the SACU market is currently below 80%. Due to low world prices, the Swaziland sugar industry in the early 1990's increased its sales into the SACU market, in particular to South Africa, being the major part of the market.

Over and above this, as part of the SADC Free Trade Agreement, it was agreed that SADC sugar producers would be allowed to sell sugar free of duty into SACU based on a formula (access of about 50 000 tons). The number of sugar suppliers in the market has therefore increased significantly. In addition, sugar can enter the market freely subject to paying the import duty. 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 roughly1% per annum over 10 years, with demand closely correlated to growth in real disposable income and growth in gross domestic product. Due to favorable economic conditions during 2004/05, growth in demand was significantly higher than the long term mean.

Trade

SADC sugar producers are net exporters of more than 2.5 million tons, which includes preferential exports to the EU under the Contonou Agreement. There is no shortage of sugar in the region and as a block of internationally competitive sugar producers, SADC countries stand to benefit from an anticipated improved international price in a hopefully deregulated international sugar environment.

A significant development for the industry in recent years has been exports through Maputo harbor, which provides a convenient port for the Mpumalanga cane growing area. The industry is a shareholder in the export facilities in Maputo, which serves the regional producers, i.e. Mozambique, South Africa, Swaziland and Zimbabwe. STAM (the company involved) is in the process of investing US$10 million on the building of a fourth silo.

Import Trade Matrix

Country	South Africa		
Commodity	Sugar,		
Time Period	March/April	Units:	MT
Imports for:	2003/04		2004/05
U.S.	0	U.S.	0
Others		Others	
Brazil	1 338	Brazil	13 984
Zimbabwe	4 343	Zimbabwe	12 615
Malawi	14 402	Malawi	8 613
Zambia	9 118	Zambia	7 309
Swaziland*	201 000	Swaziland*	202 000
Total for Others	0		0
Others not Listed	0		0
Grand Total	230 201		244 521

*Estimate

Export Trade Matrix

Country	South Africa		
Commodity	Sugar,		
Time Period	April/March	Units:	MT
Exports for:	2003/04		2004/05
U.S.	23 646		23 405
Others		Others	
Japan	145 040	Japan	163 000
South Korea	140 000	South Korea	140 000
Mozambique*	169 785	Mozambique	112 151
Saudi Arabia	0	Saudi Arabia	79 000
Kenya	48 254	Kenya	74 229
India	49 500	India	73 822
Malaysia	80 000	Malaysia	49 000
Tanzania	16 157	Tanzania	37 325
Mauritius	30 857	Mauritius	37 059
Madagascar	46 076	Madagascar	33 731
Total for Others	725 669		799 317
Others not Listed	259 174		135 903
Grand Total	1 008 489		958 625

*Mainly exports to other markets through the port of Maputo.

Domestic prices

Due to the international sugar market environment, the industry is regulated to ensure its survival. Industry regulation has undergone regular reviews over the past decade and the Sugar Act is again under review by the Department of Trade and Industry (DTI).

Sugar prices in SACU are established in a regulated environment driven off a dollar based reference price system, which determines the duty payable on sugar imports. This system was put in place by the Department of Trade and Industry in 2000. Millers, who sell the sugar domestically, compete against each other in the market, but also face competition from SADC countries in terms of the SADC Free Trade Agreement, as well as from Swaziland. The industry also faces world price imports under the dollar based reference price system.

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. 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 unchanged since 2003 due to the ongoing strength of the Rand.

The current ex-factory refined sugar price is about R3,400/ton or R3.40/kg. or $535/ton or 53 US cents/kg. at the exchange rate of US$1=R6.35. The world refined sugar price was about R1,940/ton in mid July 2005.

Policy

The only protection the industry enjoys is the import tariff, which is based on the price formula administered by the Department of Trade and Industry. 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.

The South African Sugar Association (SASA) is constituted in terms of 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 products.
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;
- The imposition of levies to cover the cost of the administration of the industry by SASA;

The Division of Proceeds

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 on the local and export markets. Prices for sugar and molasses are dependent on market conditions both locally and abroad as well as the Rand/dollar exchange rate.

Industrial costs are the costs of administrating the Sugar Association that include all the specialist services provided by SASA including agricultural research, sugar exports and many more. Industrial costs are a first charge against the industrial proceeds to determine the net divisible proceeds that are then split based on a fixed percentage between millers and growers.

The Division of Proceeds calculation is performed on a monthly basis during the season based on estimates with a final calculation at the conclusion of the season. Other than proceeds from the export of raw sugar, revenues flow directly to the milling companies. Export proceeds from the sale of raw export sugar, which is sold through the Sugar Association, are paid to the milling companies shortly after receipt. The milling companies then pay the growers based on cane delivered to their mills.

The sugar cane prices table is repeated:

SA Rand/MT.	RV Price	Cane Price	Cane/sugar ratio	
1998-1999	1 046,62	125,85	8.67	
1999-2000	971,09	121,36	8.38	
2000-2001	1 105,00	130,50	8.75	
2001-2002	1 352,14	160,23	8.83	
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