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Foreign Agricultural Service

GAIN Global Agricultural Information Network

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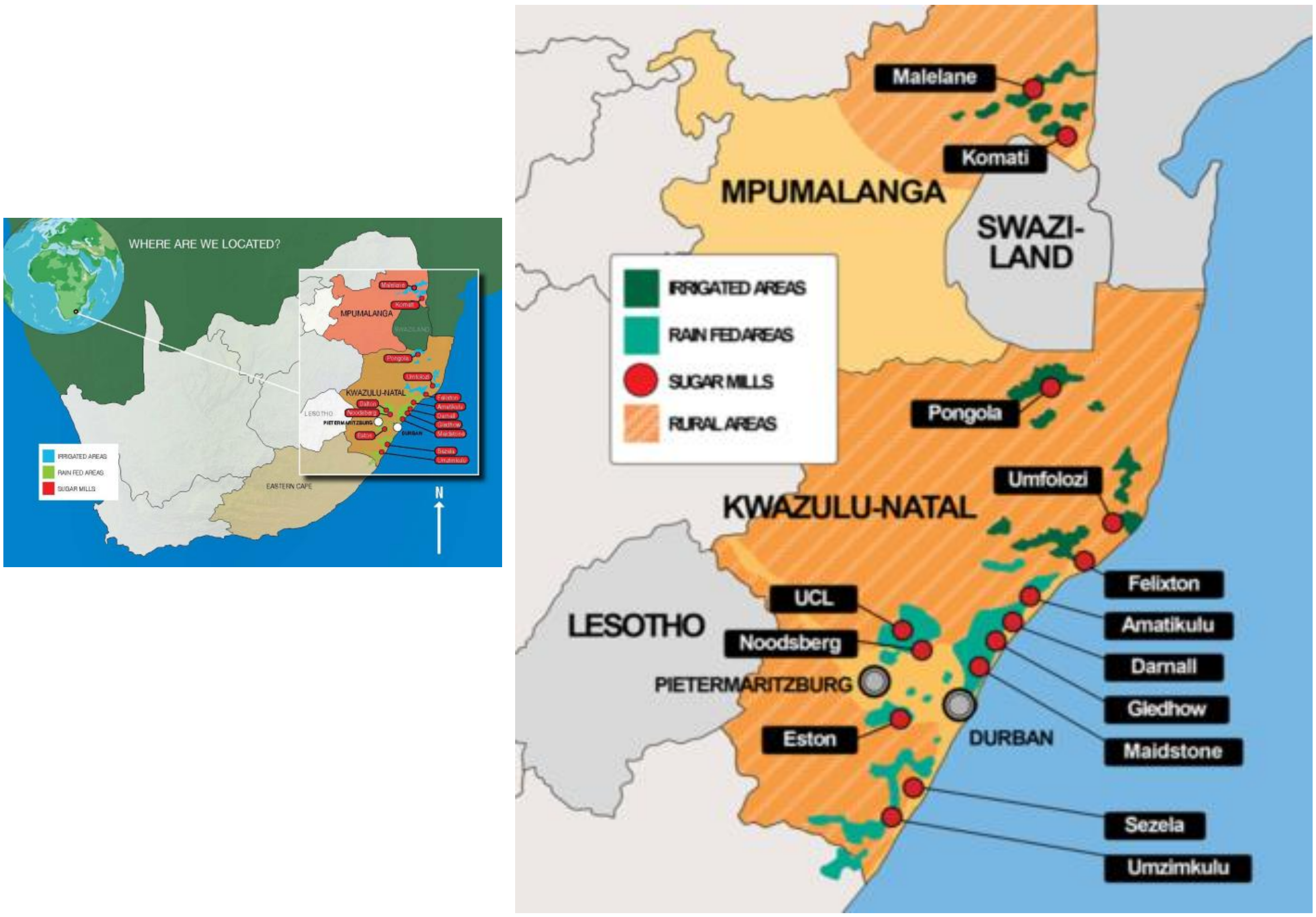
Report Highlights:

Post forecasts South African raw sugar production at 2.17 million MT in MY 2023/24, up 9 percent from 2 million MT in MY 2022/23, based on an increase in the quantity of cane delivered to the mills and consistent milling efficiencies. In October 2022 Tongaat Hulett entered into business rescue, followed by Gledhow in March 2023; however, Post contacts confirm that both mills will be able to crush cane in MY 2023/24. South African sugar exports for MY 2023/24 are revised upwards to 770,000 MT, mainly due to the stronger world sugar price. Consequently, on August 4, 2023, the South African Revenue Service, reduced the import customs duty of 196.28 c/kg to zero. Therefore, all imports of sugar below the DBRP into South Africa will not attract a duty. However, Post expects that the industry will still be protected as the price of sugar remains above $680/ton.

Background:

Sugar cane in South Africa is grown in the provinces of KwaZulu-Natal and Mpumalanga, as shown in **Figure 1**. Sugar cane production in KwaZulu-Natal is 95 percent rainfed with limited irrigated areas, while production in Mpumalanga is fully irrigated using center pivots, sprinklers, and a canal system. At least 80 percent of South African sugar cane production is supplied by large-scale farmers, with the remainder produced by small-scale farmers.

Figure 1: Map of Sugar Cane Production Areas in South Africa



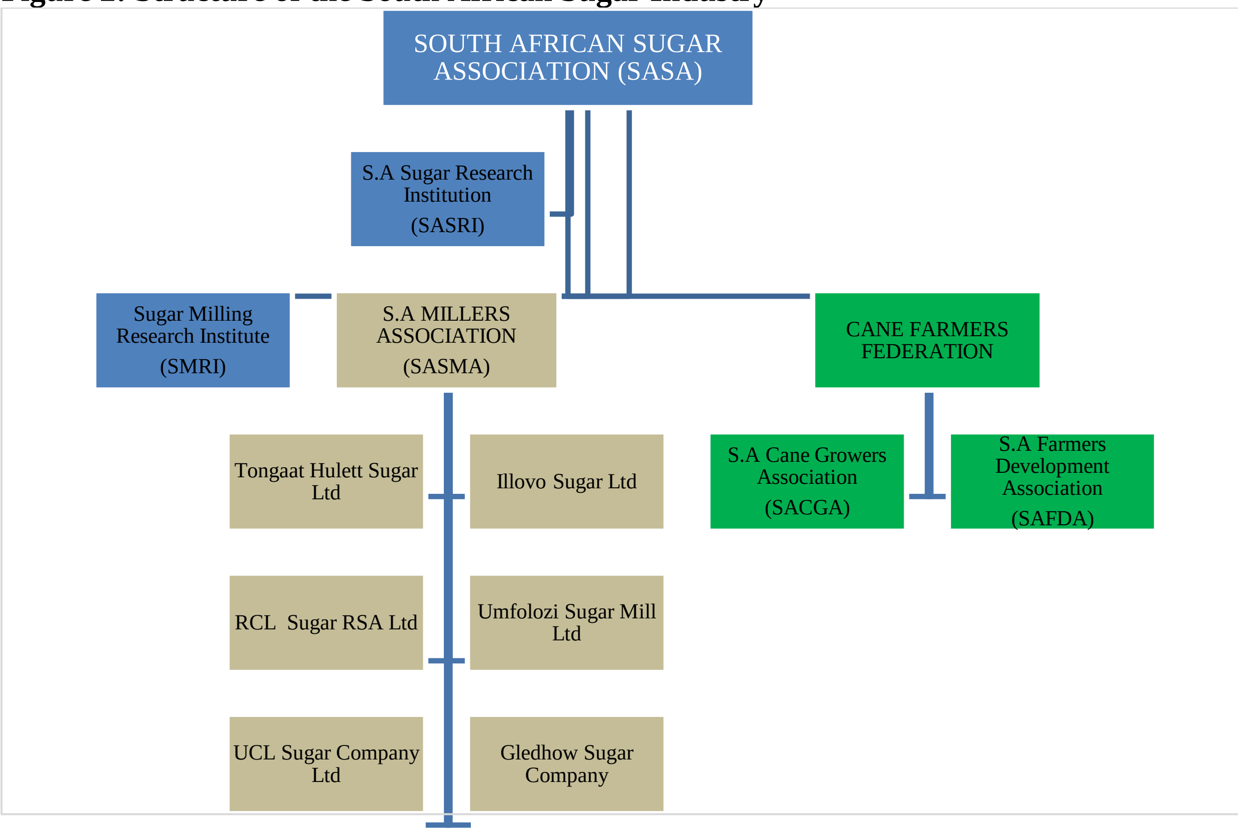
Source: South African Sugar Association (SASA)

Figure 2 shows the structure of the South African sugar industry. The South African Sugar Association (SASA) is funded by both growers and milling companies and is the industry's highest decision-making authority on issues concerning sugar cane growers and sugar millers. SASA provides support services to the entire industry's value chain, including managing exports of raw sugar, cane testing, and policy advocacy. SASA was established by the Sugar Act of 1978 and falls under the authority of the Department of Trade, Industry, and Competition (DTIC).

The South African Sugar Millers Association (SASMA) represents the interests of the country's six sugar milling companies: Tongaat Hulett Sugar Ltd, Illovo Sugar Ltd, RCL Foods, Gledhow Sugar

Company, Umfolozi Sugar Mill Ltd, and UCL Company Ltd. These six milling companies own a combined total of 12 sugar mills: 10 in KwaZulu-Natal and 2 in Mpumalanga. The Tongaat Hulett Sugar Ltd, Illovo Sugar Ltd, and RCL Foods (Formerly known as Tsb Sugar RSA Ltd) produce both raw and refined sugar. The Umfolozi Sugar Mill Ltd and UCL Company Ltd only produce raw sugar. The Gledhow Sugar Company only produces refined sugar. Tongaat Hulett Sugar Ltd, Illovo Sugar Ltd, and RCL Foods also own sugar mills in Eswatini, Malawi, Zimbabwe, Zambia, Mozambique, and Tanzania.

Figure 2: Structure of the South African Sugar Industry



Sources: SASA, SACGA, and SAFDA

In October 2022, Tongaat Hulett, South Africa's largest sugar miller, opted to enter voluntary business rescue due to financial distress caused by a R369 million ($20.8 million) loss of sugar at a refinery, a depressed property market, the withdrawal of support by a credit insurer, and significant cost increases in commodities and raw materials because of Russia's invasion of Ukraine. (More information is available in Post's November 2022 GAIN report: Financial Troubles Spread for South Africa's Largest Sugar Processer.). In July 2023, Tongaat Hulett's business rescue practitioners announced that a strategic equity partner (SEP) has been selected to acquire the complete sugar division of Tongatt Hulett Limited in South Africa, and investments in Botswana, Mozambique and Zimbabwe (Tongatt Hulette Assets). The SEP, Kagara Sugar Ltd., is a sugar manufacturing company based in Tanzania.

In March 2023, the Gledhow sugar mill was also placed under business rescue due to financial distress. The sugar mill, which is situated in KwaZulu-Natal, is important to the sugar industry as it services about 245 growers who produce 1.1 million tons of sugar cane. The company faced challenges such as forced closure due to social unrest in July 2021, damage to machinery and infrastructure in the floods of April 2022, and increases in supply costs that caused cash flow constraints for the company.

Industry sources confirm that Tongaat Hulett and Gledhow defaulted on the approximately R1 billion ($50 million) on levies due to SASA at the end of March 2023 for distribution to growers. This resulted in the recoverable value (the RV price is what growers receive for the cane they deliver to mills) declining by 8 percent, with growers taking a corresponding decrease in revenue for the 2022/23 season. The decline in grower revenue especially threatens the livelihoods of small-scale growers and the rural economy.

Sugar Cane:

Production

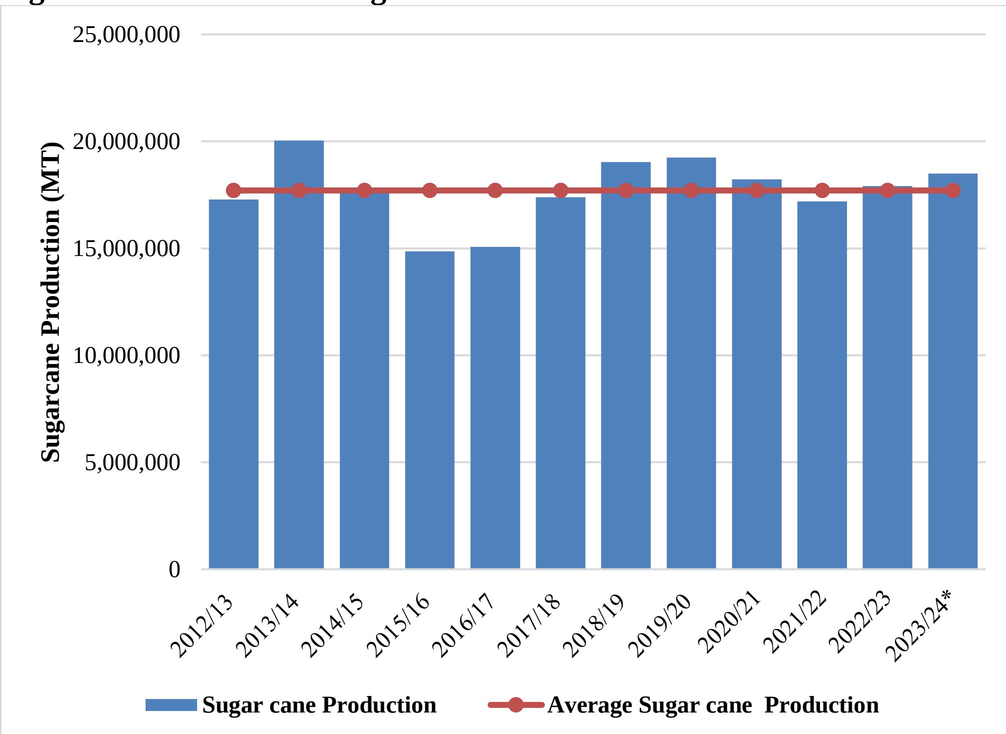
Post revises area planted to sugar cane slightly upwards to 352,500 hectares (ha) in MY 2023/24, an increase of 0.4 percent from the 351,178 ha planted in MY 2022/23. The revision is based on confirmed industry figures. Limited growth in planted area is due to the discouraging effect of the high input costs, the risk of carry-over cane due to limited milling capacity, as well as the looming increase of the sugar tax ("health promotion levy") in 2025.

Post's forecast of sugar cane production in MY 2023/24 remains unchanged at 18.5 million metric tons (MT), up 3 percent from the 17.9 million MT produced in MY 2022/23. This is based on a return to normal weather conditions, an improvement in yields, and industry efforts to increase production, especially for small-scale farmers. Additionally, the larger forecast crop is based on high volumes of carryover cane in some production regions, specifically the KwaZulu Natal coastal and midlands areas. Mpumalanga and Northern KwaZulu Natal were affected by cyclone Freddy in February and March 2023; however, the above-average rainfall due to the storm ensured water availability after a dry December and January. Nevertheless, growers have faced high costs for inputs, irrigation, and transportation of cane, as well as the uncertainty around milling capacity after two milling companies (Gledhow and Tongaat Hulett) were placed under business rescue earlier this year.

South Africa continues to experience significant challenges with its electricity supply, including frequent power outages that affect the country's one-third of sugar cane produced under irrigation. Growers irrigate whenever power is available, working around frequent scheduled blackouts that require irrigation equipment to be shut off to avoid damage. In 2022, South Africa experienced a record number of hours of power outages, which has had a negative impact on the agricultural sector as a whole, including growers of irrigated cane (see GAIN Report: Load shedding and the Economic Strain on the Food Supply Chain).

The sugar industry continues to face challenges caused by the rising cost for fuel, inputs, labor (due to an increase in the minimum wage), and electricity. Nevertheless, sugar cane yields are expected to rebound to 74 MT/ha in MY 2023/24, up from 71 MT/ha in MY 2022/23, due to an expected return to normal weather conditions and the improved performance of new cane varieties. **Figure 3** shows South Africa's sugar cane production from MY 2012/13 through Post's MY 2023/24 forecast, including the effects of drought from the 2014/15 through 2016/17 MYs. **Table 1** shows cane yields in South Africa since MY 2012/13. Notably, the country's cane yields vary widely, from 30 MT/ha for dryland smallholder farmers in KwaZulu-Natal to about 95 MT/ha for farmers in the irrigated growing regions of Mpumalanga.

Figure 3: South African Sugar Cane Production



Sources: SACGA and Post forecasts *Forecast

Table 1: Sugar Cane Production and Yields in South Africa

MY	Area planted (Ha)	Area Harvested (Ha)	Cane Crushed (MT)	Yield (MT/Ha)
2012/13	371,662	257,095	17,278,020	67
2013/14	378,922	265,939	20,032,969	75
2014/15	381,707	272,590	17,755,504	65
2015/16	370,335	258,497	14,861,401	57
2016/17	360,000	260,000	15,074,610	58
2017/18	362,000	275,000	17,388,177	63
2018/19	364,041	247,385	19,031,688	77
2019/20	372,829	249,500	19,241,812	77
2020/21	360,800	250,000	18,220,466	73
2021/22	350,000	251,000	17,199,176	69
2022/23	351,178	250,703	17,911,409	71
2023/24*	352,500	251,000	18,530,000	74

Sources: SACGA and Post forecasts *Post Forecast

Sugar cane growers in South Africa are paid by mills based on the quality of the sugar cane they deliver. Cane quality is measured using an industry agreed formula known as the Recoverable Value Tonnage (RVT). As a result, growers always aim to supply sugar cane that achieves the highest amount of sugar content that the mill can recover. The price paid to sugar cane growers also takes into account the net revenue obtained from the sale of sugar and molasses in the export and domestic markets. RV price is a function of the following factors: gross sugar production, local sugar notional prices, industry costs & special levy, sugar to RV ratio and export sugar price & exchange rate.

The provisional RV price in August 2023 for MY 2023/24 was R7,327.33 ($384.64), a 35 percent increase from the final MY 2022/23 RV price of R5,453.07 ($286.25). This is mainly due to an increase in the local sugar notional price implemented as of June 2023 and estimated export revenue based on an increase in the weighted average estimated No.11 world sugar price. However, export prices are negotiated in U.S. dollars and thus subject to fluctuations in the exchange rate. Depending on the outcome of business rescue proceedings for Tongaat and Gledhow, the forecast RV for MY 2023/24 may be offset by losses from the financial distress of mills placed under business rescue.

Table 2 shows that the final RV price for MY 2022/23 was R5,435.07 ($285.31), which is a 2 percent increase from the MY 2021/22 final RV price of R5,334.37 ($280.02). The initially forecast RV price for MY 2022/23 by SASA was R5,859.38 ($307.58), and due to the shortfall caused by the Tongaat and Gledhow mills, the final RV price declined by R424 ($22.26), or 8 percent. The MY 2022/23 RV price was affected by defaults in industry levy and redistribution funds by Tongatt Hulett Sugar and Gledhow Sugar Company. The shortfall was covered by a special levy from all growers and the other four milling companies as industry was unable to secure funding to make up for the defaults by milling companies. The shortfall also meant that many growers received income that was below the production costs for MY 2022/23.

Table 2: Sugar Cane Prices Paid to Growers

MY	Price (Rands/ Recoverable Value Ton)	Percentage Change
2012/13	3,197.32	6%
2013/14	3,137.87	-2%
2014/15	3,437.97	10%
2015/16	3,979.22	16%
2016/17	4,931.31	24%
2017/18	4,187.11	-15%
2018/19	3,574.41	-15%
2019/20	4,220.58	18%
2020/21	5,030.39	19%
2021/22	5,334.37	9%
2022/23	5,435.07	2%
2023/24*	7,327.33	35%

Sources: SACGA and Post forecast *Forecast

Table 3: Production, Supply, and Distribution (PS&D) for Sugar Cane

Sugar Cane for Centrifugal	2021/2022		2022/2023		2023/2024	
Market Year Begins	Apr 2021		Apr 2022		Apr 2023	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	375	350	349	351	349	353
Area Harvested (1000 HA)	254	251	249	251	252	251
Production (1000 MT)	17199	17199	17914	17911	18500	18500
Total Supply (1000 MT)	17199	17199	17914	17911	18500	18500
Utilization for Sugar (1000 MT)	17199	17199	17914	17911	18500	18500
Utilizatn for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	17199	17199	17914	17911	18500	18500
(1000 HA) ,(1000 MT)						

Sugar:

Production

Post forecasts South African raw sugar production as unchanged at 2.17 million MT in MY 2023/24, up 9 percent from 2 million MT in MY 2022/23, based on an increase in the quantity of cane delivered to the mills and consistent milling efficiencies (sugar recovery rate). In October 2022 Tongaat Hulett entered into business rescue, followed by Gledhow in March 2023; however, Post contacts confirm that both mills will be able to crush cane in MY 2023/24.

Post also revised MY 2022/23 sugar production upwards to 2 million MT, driven by record production in the irrigated Pongola area (RCL sugar mill) and Umfolozi Sugar mill. However, production in other regions was limited by milling capacity with the permanent closure of two sugar mills and the heavy rains in April 2022 that waterlogged fields and delayed the start of the harvest in some areas resulting in lower quality cane.

The sugar recovery rate refers to the number of kilograms (kg) of sugar obtained from a metric ton of sugar cane, expressed as a percentage. The percentage of sugar produced from each ton of sugar cane is estimated to increase to 11.75 percent in MY 2023/24, as shown in **Table 4**.

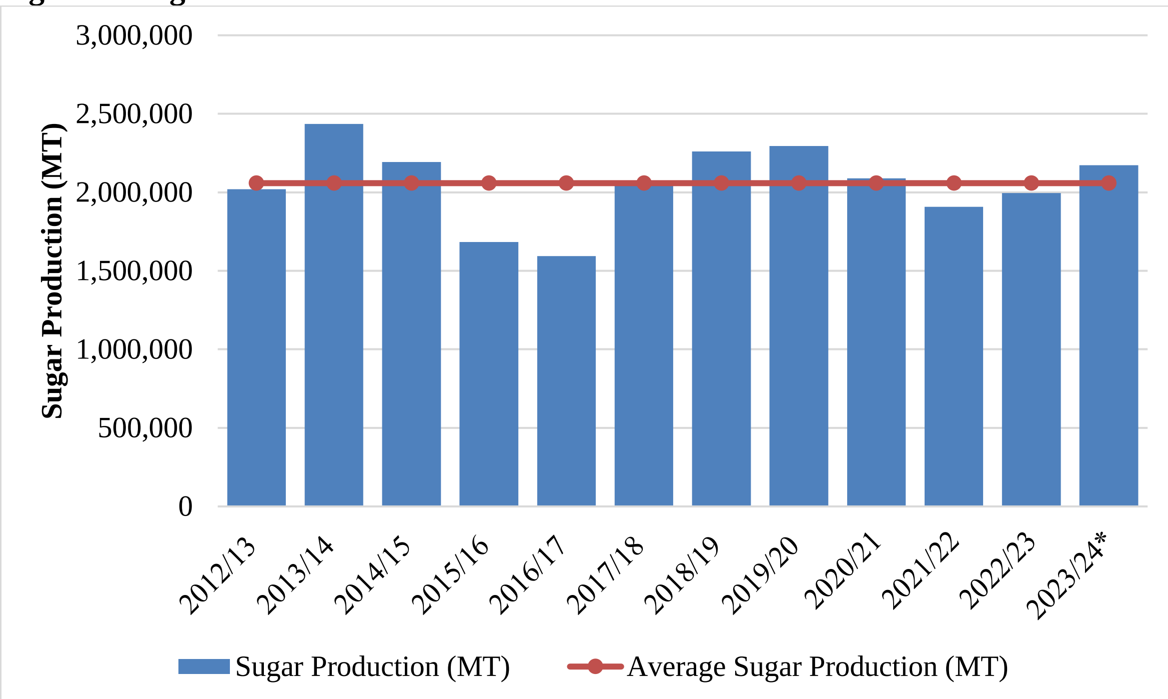
Table 4: Sugar Production and Factory Recoveries in South Africa

MY	Cane Crushed (MT)	Sugar Production (Tel Quel MT)	Sugar Production (Raw Value MT**)	Sugar/ Cane Ratio (Percentage)
2012/13	17,278,020	1,951,518	2,019,821	11.69%
2013/14	20,032,969	2,352,878	2,435,229	12.16%
2014/15	17,755,504	2,118,232	2,192,370	12.35%
2015/16	14,861,401	1,627,395	1,684,354	11.33%
2016/17	15,074,610	1,539,739	1,593,630	10.57%
2017/18	17,388,177	1,985,715	2,055,215	11.82%
2018/19	19,031,688	2,183,821	2,260,255	11.88%
2019/20	19,241,812	2,217,055	2,294,652	11.93%
2020/21	18,220,466	2,018,224	2,088,862	11.46%
2021/22	17,199,176	1,842,663	1,907,156	11.09%
2022/23	17,911,409	1,928,305	1,995,796	11.14%
2023/24*	18,500,000	2,100,000	2,173,500	11.75%

* Forecast **Raw Value = Tel Quel x 1.035
Sources: SACGA, SASA, and Post estimates

Figure 4 shows that sugar production recovered from the drought conditions seen in MY 2015/16 and MY 2017/18 and is now hovering around the volumes seen a decade ago. However, sugar production has yet to reach the peak production level of 2.8 million MT recorded in the MY 2002/03.

Figure 4: Sugar Production



Sources: SASA and Post forecasts *Post Forecast

Consumption

Post forecasts that domestic sugar consumption will increase by 1.5 percent to 1.78 million MT in MY 2023/24, up from 1.75 million MT in MY 2022/23. This is based on population growth and continued improvements in demand from the local food processing industry following various initiatives by the sugar industry master plan. In MY 2022/23 industry has able to increase demand by securing commitments from local food and beverage manufacturers to use domestic sugar.

Under the South African Sugar Cane Value Chain Master Plan to 2030, the government and sugar industry aimed to boost domestic demand by 150,000 MT to 300,000 MT by the end of phase one of the plan, a three-year period that ended in March 2023. Industry confirms that it has achieved an increase of almost 280,000 MT in consumption three-year phase one period of the master plan. Additionally, the price of sugar was limited to a 7 percent increase for first phase of the Sugar Master Plan, which also encouraged domestic sales.

Sugar in South Africa is primarily used for direct human consumption and for food manufacturing as an ingredient for beverages and confectionary products. The food processing demand for sugar accounts for 60 percent of total domestic sugar sales, while direct home consumption accounts for the other 40 percent. The per capita consumption of sugar in South Africa is about 34 kg per year, which is higher than most countries in the Southern Africa region, most of which are below 30 kg per capita. However, the South African per capita consumption is still much lower to than the United States, which has per capita consumption of between 68 to 70 kg per year. The retail price of brown and refined sugar in South Africa ranges from $1.35 to $1.70 per kg and is affordable to the majority of the population.

Sugar consumption in South Africa has been affected by decreased demand from the beverage sector following the introduction of a tax on sugar-sweetened beverages in April 2018, as well as an increase in the tax in 2019. Information on the impact of the sugar tax is available in Post's March 2019 GAIN report: South African Sugar Industry Crushed by Not So Sweet Tax. South African cane farmers and sugar millers were relieved by the recent announcement that the South African government is delaying the next increase in the sugar tax by at least two fiscal years. Industry holds the view that there is no evidence that a sugar tax has led to a decrease in obesity rates, but rather the tax has led to a loss of revenue and jobs for the sector.

Post expects continued growth in the use of other sweeteners based on the pace of ongoing investments by local producers—including sugar cane growers and milling companies—in the sweetener sector in response to consumer health trends. This follows the trend by the beverage sector to reformulate their drinks with less sugar and switch to no- or low-calorie alternative sweeteners to either avoid or minimize the impact of the sugar tax. This trend is expected to stabilize in the coming years, with many food manufacturers having already reduced their use of sugar and increased the use of sweeteners such as aspartame, stevia leaf extract, sucralose, and acesulfame potassium. However, South Africa's sugar sector remains concerned that new front-of-package food labelling regulations could cause a further shift away from sugar as a sweetener in consumer-oriented food and beverage products.

Trade

Exports

Post revises total sugar exports upwards to 770,000 MT in MY 2023/24, an increase of 7 percent from the 722,558 MT exported in MY 2022/23. This is based on increased exportable supply, the depreciation of the South African rand, and a stronger world price for sugar.

Domestic prices for raw sugar tend to be higher than export prices, but the weak rand may make export prices more appealing in MY 2023/24. The South African rand depreciated on average by 13 percent between August 2022 ($1=R16.50) and August 2023 ($1=R18.69) due to South Africa's sluggish economic performance. Weather risks in other sugar-producing countries have led to elevated global sugar prices, which also support Post's revised forecast. MY 2022/23 exports were revised upwards to 722,558 MT, based on final data.

South Africa exports surplus sugar once the domestic market and the South African Customs Union (SACU) markets are adequately supplied. SACU members include Botswana, Eswatini, Lesotho and Namibia. In MY 2022/23, Spain (18 percent) was the main market for South African raw sugar, followed by Malaysia (15 percent) and Croatia (13 percent). In total, raw sugar exports to the EU accounted for 55 percent of all South African raw sugar exports in MY 2022/23 due to the annual duty-free quota of 150,000 MT that South Africa was granted under the EU-Southern Africa Development Community (SADC) Economic Partnership Agreement, implemented in 2016. South Africa also receives an annual duty-free quota for sugar of 71,000 MT under the Economic Partnership Agreement between the UK and SACU and Mozambique (SACUM-UK EPA), and it fills this quota every year. The UK accounted for 13 percent of total South African exports of raw sugar in MY 2022/23.

South Africa is also a beneficiary of the U.S. tariff-rate quota (TRQ). The TRQ has remained relatively constant over the last several years. On July 18, 2023, the office of the U.S. Trade Representative announced a tariff rate quota allocation of 24,744 MT for South African sugar for the fiscal year (FY) 2024 (October 1, 2023 – September 30, 2024). For FY 2023 (October 1, 2022 – September 30, 2023), South Africa received an annual allocation for raw sugar of 24,744 MT and an additional re-allocation of 12,147 MT. The United States is a premium market for South African sugar, and South Africa utilizes its full quota allocation each year. The sugar industry marketing year runs from April to March, while the TRQ year runs from October to September, which results in the TRQ for two different FYs being recorded in one MY. South Africa exported 6 percent of its total raw sugar to the United States in MY 2022/23.

Table 5: Raw Sugar Exports

South Africa Exports to the World						
Commodity: 170111/170112/170113/170114						
		Year Ending Plus: May – April			Year to Date: May – Jul	
Partner Country	**Unit**	**2021/22**	**2022/23**	**%Δ**	**2022/23**	**2023/24**
World	**T**	**342,266**	**514,137**	**50%**	**108,626**	**134,818**
Spain	T	53,500	90,000	68%	0	0
Malaysia	T	30,000	77,030	157%	0	30,000
Croatia	T	0	66,000	-	33,000	0
United Kingdom	T	67,300	64,421	-4%	0	39,000
Portugal	T	0	33,000	-	33,000	0
Bulgaria	T	30,000	33,000	10%	0	0
Romania	T	30,000	30,783	3%	30,783	0
Belgium	T	0	30,000	-	0	0
United States	T	28,119	29,794	6%	0	0
Lesotho	T	14,295	15,132	6%	3,651	4,203
Namibia	T	13,523	13,957	3%	3,904	723
Unidentified	T	16,961	9,064	-47%	1,000	5,008
Madagascar	T	4,450	8,980	102%	520	676
Mozambique	T	2,064	3,186	54%	229	252
Zimbabwe	T	180	2,970	1550%	506	3,909
Botswana	T	1,673	2,002	20%	1,082	1,142
Eswatini	T	2,770	1,751	-37%	261	347

Source: Trade Data Monitor

Namibia (41 percent), the United Kingdom (30 percent), Mozambique (17 percent), and Botswana (7 percent) are the main refined sugar export markets for South Africa. Refined sugar exports to the United States are inconsistent and minimal due to the absence of a guaranteed quota. The refined sugar quota allocations in the United States are based on a first-come, first-served basis and are usually utilized by

South American countries including Mexico, Brazil, and Colombia. Please note, refined sugar exports are converted to raw sugar values in Post's PSD table using a factor of 1.07.

Table 6: Refined Sugar Exports

South Africa Exports to the World						
Commodity: HS170191, 170199						
		Year Ending Plus: May – April			Year to Date: May – Jul	
Partner Country	**Unit**	**2021/22**	**2022/23**	**%Δ**	**2022/23**	**2023/24**
World	**T**	**205,803**	**208,419**	**1%**	**38,432**	**84,283**
Namibia	T	60,752	84,790	40%	19,236	23,132
United Kingdom	T	24,499	62,610	156%	297	37,833
Mozambique	T	60,149	35,057	-42%	11,322	2,150
Botswana	T	24,086	13,656	-43%	1,881	11,818
Angola	T	6,236	6,056	-3%	2,491	-
Zimbabwe	T	293	2,639	800%	1,218	5,661
Unidentified	T	4,969	1,272	-74%	1,079	3,133
Lesotho	T	3,865	979	-75%	220	230
Madagascar	T	13,019	636	-95%	404	-
Eswatini	T	3,324	353	-89%	277	36
Rwanda	T	749	167	-78%	-	111
Zambia	T	91	161	76%	1	141
Congo (DROC)	T	365	15	-96%	-	-
Ghana	T	7	10	29%	-	-
Malawi	T	5	9	60%	2	30
Seychelles	T	32	4	-87%	-	-
Tanzania	T	722	3	-100%	-	3

Source: Trade Data Monitor

Imports

Post forecasts that total sugar imports will drop by 7 percent to 365,000 MT in MY 2023/24, from 390,801 MT in MY 2022/23, based on the applied import tariff and commitments by South African manufacturers and some retailers to utilize local sugar instead of imports. Imported sugar is usually more costly than sugar produced in South Africa due to tariff imposed on deep sea sugar imports. In MY 2022/23, South Africa imported a total of 390,801 MT of sugar. Raw sugar imports from Eswatini accounted for 97 percent of total South African raw sugar imports in MY 2022/23 because Eswatini is part of SACU, and thus its exports to South Africa are not subject to import duties. Raw sugar imports from Brazil and the United Arab Emirates accounted for less than 1 percent of South African imports in MY 2022/23, down from 20 percent in MY 2017/18 due to the impact of the increase in customs duties. Refined sugar imports are mainly from Thailand (35 percent), Eswatini (28 percent), United Arab Emirates (13 percent), and India (11 percent).

Table 7: Raw Sugar Imports

South Africa Imports from the World							
Commodity: 170111/170112/170113/170114							
		Year Ending Plus: May – April			Year to Date: May – Jul	
Partner Country	**Unit**	**2021/22**	**2022/23**	**%Δ**	**2022/23**	**2023/24**
World	**T**	**361,860**	**305,841**	**-15%**	**71,584**	**91,294**
Eswatini	T	329,219	296,025	-10%	68,312	90,921
Mozambique	T	4,552	4,227	-7%	1,999	0
United Arab Emirates	T	0	3,000	-	0	0
Mauritius	T	1,403	1,071	-24%	1,006	0
India	T	6	948	15700%	0	1
Zambia	T	15,011	136	-99%	136	0
Unidentified	T	92	126	37%	78	68
Botswana	T	34	103	203%	0	0
Germany	T	62	102	65%	41	0
Brazil	T	4,382	58	-99%	10	270

Source: Trade Data Monitor

Table 8: Refined Sugar Imports

South Africa Imports from the World						
Commodity: HS170191, 170199						
		Year Ending Plus: May – April			Year to Date: May – Jul	
Partner Country	**Unit**	**2021/22**	**2022/23**	**%Δ**	**2022/23**	**2023/24**
World	**T**	**46,626**	**84,961**	**82%**	**8,654**	**7,171**
Thailand	T	-	29,951	-	-	-
Eswatini	T	22,765	23,786	4%	6,629	5,980
United Arab Emirates	T	2,119	10,714	406%	5	-
India	T	9	9,626	112350%	1	347
Egypt	T	-	5,008	-	-	-
Brazil	T	11,468	3,127	-73%	867	293
Germany	T	1,427	1,360	-5%	386	430
Botswana	T	3,142	331	-89%	218	-
Zambia	T	254	328	30%	292	-
Morocco	T	-	308	-	-	-
United Kingdom	T	74	168	128%	57	24
Unidentified	T	202	164	-19%	148	72
Namibia	T	102	51	-49%	39	13
Belgium	T	-	17	-	11	11

Mozambique	T	-	5	-	-	-
Mauritius	T	1,726	4	-100%	-	-
China	T	7	4	-43%	-	-
Bahrain	T	-	2	-	-	-
Italy	T	2	2	0%	1	1
Netherlands	T	5	1	-80%	1	-
United States	T	4	1	-75%	1	-
Taiwan	T	2	1	-50%	-	-

Source: Trade Data Monitor

Stocks

Post estimates that South Africa's ending sugar stocks will decrease to 79,000 MT in MY 2023/24, from 104,000 MT in MY 2022/23, based on an increased supply of exportable sugar and local sales. All sugar produced in each marketing year is sold at the end of the season for the industry to share the revenue between growers and millers, per the agreed division of proceeds formulas (more information in policy section at the bottom of this report). Large volumes of closing stocks also pose a cost to the industry, as growers and millers must pay for the storage of such sugar.

Table 9: Production, Supply, and Distribution (PS&D) for Sugar

Sugar, Centrifugal	**2021/2022**		**2022/2023**		**2023/2024**	
Market Year Begins	**May 2021**		**May 2022**		**May 2023**	
South Africa	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks (1000 MT)	168	168	131	207	101	104
Beet Sugar Production (1000 MT)	0	0	0	0	0	0
Cane Sugar Production (1000 MT)	1906	1906	1994	1996	2174	2174
Total Sugar Production (1000 MT)	1906	1906	1994	1996	2174	2174
Raw Imports (1000 MT)	320	362	307	306	300	300
Refined Imp.(Raw Val) (1000 MT)	60	47	72	85	65	65
Total Imports (1000 MT)	380	409	379	391	365	365
Total Supply (1000 MT)	2454	2483	2504	2594	2640	2643
Raw Exports (1000 MT)	370	342	452	514	470	550
Refined Exp.(Raw Val) (1000 MT)	225	206	183	208	180	220
Total Exports (1000 MT)	595	548	635	722	650	770
Human Dom. Consumption (1000 MT)	1710	1710	1750	1750	1776	1776
Other Disappearance (1000 MT)	18	18	18	18	18	18
Total Use (1000 MT)	1728	1728	1768	1768	1794	1794
Ending Stocks (1000 MT)	131	207	101	104	196	79
Total Distribution (1000 MT)	2454	2483	2504	2594	2640	2643
(1000 MT)						

Trade Policy and Regulations:

Sugar Marketing and Sales

The South African sugar industry operates according to the terms set out in the Sugar Act 1978, The Sugar Industry Agreement (2000), and the Constitution of the South African Sugar Association. The South African Sugar Association (SASA) is by law the only organization permitted to export raw sugar produced in South Africa. Sugar milling companies are only permitted to export refined sugar. South Africa always exports its surplus raw sugar, regardless of the global prices and sometimes at a loss because domestic sugar regulations stipulate that the price paid to sugar cane growers should be based on revenue obtained from the sugar sales in the local and export market for that specific season. The South African sugar industry provides a rebate (discount) to domestic manufactures to promote the sale and use of locally produced sugar.

SASA sets the sugar notional price and manages the division of industry proceeds from the sale of sugar and molasses. The split between growers and millers is 64 percent and 36 percent, respectively. Producers are paid according to the RV content delivered to the mills, whereas millers are compensated according to their share of sugar production.

SASA requires two types of funding; working capital to run operations throughout the year, which is sourced through industry levies, and end-of-season funding to purchase carry-over sugar, which mostly sits with the mills. The latter presents a challenge for the industry as SASA was unable to secure a loan in MY 2022/23 due to the business rescue taking place for two milling companies. The companies placed under business rescue defaulted on proceeds meant for redistributions and levies, which led to a decline in RV price. Because the final RV price needs to be paid by end of season (March 31) other milling companies and growers covered the shortfall. To prevent a subsequent default, the industry is considering seeking loans only for the volumes in the export terminal, although, according to Post contacts, no final decision has been reached.

U.S. Sugar Tariff-Rate Quota (TRQ) Allocation

South Africa is a beneficiary of the U.S. sugar TRQ, which allows the country to export raw sugar duty-free to the United States. The United States is considered a premium market for South African raw sugar exports due to the higher purchase prices. South Africa's TRQ allocation has remained relatively constant over the last several years, and the country always utilizes its full allocation and any additional reallocations each year.

EU and UK Sugar Quotas and Policies

South Africa was granted an annual duty-free sugar quota of 150,000 MT for export to the EU under the SADC-EU Economic Partnership Agreement, which was finalized in October 2016. In MY 2022/23, South Africa fully utilized the EU quota due to favorable prices and increased demand in the EU market. Since the UK left the EU in 2020, South Africa has also received an annual duty-free quota for sugar of 71,000 MT under the Economic Partnership Agreement between the UK, SACU, and Mozambique (SACUM-UK EPA).

Import Restrictions Based on the Dollar-Based Reference Price

South Africa applies the dollar-based reference price (DBRP) mechanism to ensure that, inclusive of the duty, the DBRP (currently $680 per ton) is the lowest price that an importer will pay for imported sugar. If 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 duty owed. The DBRP was increased from $566 to $680 per ton in August 2018 to restrict increased imports from Brazil and the United Arab Emirates, and because the DBRP of $566 per ton was below the cost of sugar production in South Africa. On August 4, 2023, the South African Revenue Service (SARS) reduced the customs duty of 196.28 c/kg to zero. Therefore, all imports of sugar below the DBRP into South Africa will not attract a duty. The London No.5 price has remained above $680/ton, which triggered a zero-import duty in May 2023. However, there is often a lag between the time a tariff change is triggered and when it goes into effect through publication in the government gazette, hence it was adjusted in August 2023. Post expects that the industry will still be protected as the price of sugar remains above $680/ton.

Tax on Sugar-Sweetened Beverages

The South African government legislated a Health Promotion Levy (sugar tax) in 2017 with an objective to cut obesity levels. The levy is currently 2.1 cent per gram of the sugar content that exceeds 4 grams per 100 ml, or about 10 percent of the price of sugary drinks. In 2020, an announcement was made that there would be an increase in the levy, however the finance minister postponed the increase to April 2023 to allow for engagement with the industry. In February 2023, the Minister of Finance announced that increases to the sugar tax would be postponed for another two fiscal years. The Ministry cited the impact of flooding and social unrest on the sugar industry as reasons for the decision. The South African Canegrowers Association, which represents farmers, has urged the Ministry of Finance to share the data used to justify the introduction of the levy and proof that the tax has reduced obesity levels. Other analysts state it is still too early to produce this kind of data and it would take generations to see any changes in society. Additional information on the impact of the sugar tax is available in Post's March 2019 GAIN report: South African Sugar Industry Crushed by Not So Sweet Tax.

South African Sugar Industry Master Plan to 2030

On November 17, 2020, the Department of Trade, Industry and Competition (DTIC); the Department of Agriculture, Land Reform and Rural Development (DALRRD); and industry stakeholders signed off on the South African Sugar Industry Master Plan. The creation of industry master plans has become a common measure to support various sectors in South Africa. For example, the poultry industry also has a master plan. In general, master plans provide a comprehensive set of actions designed to achieve common policy objectives. The plans also provide guidance on policies, support, strategies, and actions required to achieve specified targets. The South African Sugar Industry Master Plan's vision for 2030 is "a diversified and globally competitive, sustainable and transformed sugar cane-based value chain that actively contributes to South Africa's economic and social development, creating prosperity for stakeholders in the sugar cane value chain, the wider bio-economy, society, and the environment."

The objective of the master plan is to ensure the long-term sustainability and profitability of the sugar sector in South Africa. The master plan follows a phased approach to planning and implementation. For the three-year Phase 1 stage, which ended in March 2023, the aim was to increase domestic use of sugar to at least 300,000 MT by having local manufacturers prioritize South African sugar instead of imports to make their products. Industry sources shared that domestic consumption had increased by at least 280,000 MT, just shy of the target but widely considered a success. The master plan also aimed to provide pricing certainty to retailers and consumers by containing producer prices at or below consumer inflation in an effort to restore sales. However, in June 2023, after the end of Phase 1 of the master plan, industry triggered an increase in the sugar notional price (14 percent for refined sugar and 13 percent for brown sugar) in an effort to keep up with the growing cost of production in recent years. These increases are likely to be passed on to consumers. Sugar industry players are currently discussing the terms of the second phase of the master plan, but no implementation date has been announced.

Electricity Co-generation

The South African sugar industry currently uses bagasse to generate electricity for milling operations. None of the electricity generated from the sugar mills is supplied to the national electric grid due to the absence of appropriate incentives and policies by the government or the state-owned electric company (Eskom). However, unprecedented levels of load shedding (rolling backouts) has caused electrical generation to come to the forefront of national policy discussion (see GAIN report: Load shedding and the Economic Strain on the Food Supply Chain). Although Post is unaware of any specific plans to integrate sugar mills into the national grid at this time, the national crisis could lead to consideration of options that were previously on the backburner. The industry's ability to generate its own electricity has allowed millers to avoid the escalation of generator and fuel costs and shutdowns of operations experienced by others in the South African agricultural sector.

Ethanol Production

There is currently no commercial production of fuel-grade ethanol from sugar cane in South Africa. However, some of the sugar mills produce beverage-grade ethanol and industrial alcohols as by-products or back-end products from molasses. The production of ethanol and other products is expected to change when the master plan is implemented effectively. There are discussions of piloting ethanol production at a vacant refinery in KwaZulu-Natal, however no concrete plans have emerged.

Draft Regulations on Front-of-Package Labelling

The South African Ministry of Health published draft regulations on labelling and advertising of foods. The draft regulation proposes that pre-packed foodstuffs will bear mandatory front-of-pack labelling when containing added sugar in excess of 10 grams per 100 grams in solids or 5 grams per 100 ml in liquids (see GAIN report: South Africa Issues New Draft Regulation on Food Labelling). Industry and affected parties were given until July 21, 2023, to submit comments or representation to the South African Director General of Health. The sugar sector submitted comments, as did some individual companies in the industry. Post is monitoring updates on this proposed regulation.

Report Sources:
South African Canegrowers Association - www.sacanegrowers.co.za
South African Sugar Association - www.sasa.org.za

MT = metric ton
MY = marketing year (April-March for sugar cane and May-April for sugar)
1 U.S. dollar ($) = 19.05 South African rand as of September 15, 2023

Attachments:

No Attachments