



Briefing Note: Engagements with the Sugar Industry

1. Introduction

The 2014-2019 Legacy Report highlighted the Committee in the Fifth Parliament's engagement with the sugar industry. This briefing note provides a background to the engagements with the sugar industry, describes the key issues raised and the interventions implemented thus far, as well as highlights the recommended actions for the Sixth Parliament.

2. Sugar industry

The sugar industry currently consists of about 22 500 registered sugarcane growers, including 21 110 small-scale growers¹, and six milling companies with 14 sugar mills across KwaZulu-Natal and Mpumalanga². Of the 1 327 large-scale growers, only 323 were black growers³. The industry generates about 79 000 direct jobs including approximately 7 000 in milling mainly in rural areas. This is approximately 11% of the total agricultural sector's labour force.⁴

According to the South African Sugar Association (SASA), the industry produces about 2.2 million tons of sugar every season. This is mainly sold in the Southern African Customs Union (SACU) and the remainder is exported to Africa, Asia and the Middle East⁵. However, the domestic share of the market has significantly declined with a growing portion of imports since the 2014/15 production season⁶.

South Africa's cane destination markets are mainly the European Union, China, the United States, and Japan respectively. The challenge with exports as highlighted by SASA is that the industry loses money from exports, as the average export price is significantly lower than the local market price. However, with increased imports causing a decline in the demand for locally produced sugar, industry has to export its excess supply to lower priced markets.

¹ A small-scale grower is classified to be producing sugarcane on less than 30 hectares.

² DTI (2018a) and SASA website

³ DTI (2017)

⁴ DTI (2018a)

⁵ SASA website

⁶ ITAC (2018a)

The sugar industry is a legislated, self-regulatory industry, as mandated by the Sugar Act (No. 9 of 1978). This Act is administered by the Minister of Trade and Industry. It stipulates that the South African Sugar Association (SASA) is established as a statutory, umbrella association. It also recognises specifically the South African Sugar Millers' Association (SASMA), and the South African Cane Growers' Association (SACGA) as equal members of SASA.

3. Committee engagements with the industry

In October 2017, the Committee was briefed by the South African Farmers' Development Association (SAFDA) on challenges being faced by small, black cane growers. A number of these challenges was as a result of the configuration of the SASA, which was embedded in the Sugar Act, and the resultant lack of recognition of these growers' needs and concerns. The Committee consequently held several meetings with the DTI, SAFDA, SASA, the South African Sugarcane Growers' Association (SACGA) and the South African Millers' Association (SASMA) to discuss the challenges being experienced in the industry and to call for deeper transformation in the industry. The Committee also conducted an oversight visit to KwaZulu-Natal to gain a better understanding of the conditions facing the industry.

As a result of these engagements, the Committee resolved that the DTI should review the legislation and regulations. In the interim, SASA had revised its constitution to allow the SAFDA observer status with a voice within the SASA Council until a final position was reached.

One of the issues that was raised during the oversight visit was the need for further tariff protection due to cheap sugar imports and alleged dumping of sugar in the South African market. The Committee had requested the National Treasury, the South African Revenue Service (SARS) and the International Trade Administration Commission of South Africa to brief it on the status of tariff implementation and the review of the sugar tariff. The sugar tariff was subsequently reviewed and increased.

Table 1: List of meetings held

Date	Purpose of meeting	Stakeholders engaged
12 October 2017	Briefing by SAFDA on the challenges being faced by black, small-scale cane growers	SAFDA
10 November 2017	Engagement with all sugar industry associations on the cane growers' dispute	DTI, SASA, SACGA, SASMA and SAFDA
22 November 2017	Resolution regarding the cane growers' dispute	DTI, SASA, SACGA, SASMA and SAFDA
29 November 2017	Briefing by DTI on the progress made regarding the cane growers' dispute	DTI, SASA, SACGA, SASMA and SAFDA
25-26 January 2018	Oversight visit	SAFDA, SASRI, SASA and DTI
24 April 2018	Briefing by the DTI on the intervention in the sugar industry	DTI
12 June 2018	Briefings on the consideration of a tariff amendment for sugar	DTI, ITAC, NT, SASA, SACGA and SAFDA
4 September 2018	Briefings on the sugar tariff	DTI and ITAC
13 September 2018	Update on sugar tariffs	DTI, ITAC
10 October 2018	Briefing by SASA and SAFDA on the sugar tariffs	DTI, SASA and SAFDA
5 December 2018	Briefing by SASA on transformation in the sugar industry	DTI, SASA
26 February 2019	Decision on sugar industry regarding a request for a joint meeting with the Portfolio Committees on Agriculture, Forestry and Fisheries, and on Rural Development and Land Reform on the impending danger to the Sugar Cane Industry	Committee

4. Key issues raised

The following key issues were raised by various stakeholders in the industry over the period October 2017 to March 2019:

4.1 Lack of support for black, small-scale growers

Due to the lack of transformation for black, small-scale growers within the SASA, a number of concerns of these growers were not receiving adequate attention and being resolved within the association. The challenges initially raised by the SAFDA included:

- General lack of economies of scale and scope;
- Relatively high input costs (such as for chemicals and seeds);
- Lack of access to alternative markets (sugar is their only guaranteed market);
- No control of logistics and schedules, these are set at the directive of contract companies;
- Farming marginal lands and communal lands;
- Lack of access to sustainable development/commodity finances;
- Lack of access to funding;
- Reduced production and therefore limited cane supply to mills;
- Distance from sugar mills, especially for Makhathini growers; and
- High harvest to crush delays, especially after accidental burning.⁷

During the Committee's oversight visit to KwaZulu-Natal, the following challenges were raised⁸:

- *Distance of farmers to the mills and transport costs*: SAFDA was of the view that transportation costs from the loading zones for small growers should be incurred by the miller rather than the growers. Currently, due to transport challenges, there are incidents when the cane is not picked up; therefore, resulting in a loss for the farmer who has already paid for the production and processing of the crushed cane.
- *Daily Rateable Deliveries (DRD)*: The system used by small-scale growers to access the mills when crushing sugarcane is set up so that large-scale farmers have their cane crushed first. This means that small-scale farmers' cane has to wait for a long time, in some cases days, to get into the mills. This impacts on the value of the crushed cane, due to a loss of

⁷ SAFDA (2017)

⁸ Portfolio Committee on Trade and Industry (2018)

sucrose content the longer the crushed cane waits. They proposed that the system be adapted so that their cane is processed first, as they only account for approximately 10% of the annual production.

- *Farm gate price determination for small-scale growers and land reform growers:* According to the growers, transport cost is the largest cost item for cane growers, due to the scale of farming and the small income from the yield. Therefore, SAFDA advocated for farm gate price determination for these growers. Thus, there would be a special provision made for these growers where their cane is priced at the farm gate excluding the transport cost.
- *Local market price for small-scale growers:* According to SAFDA, small-scale growers incur significantly larger production and transport costs than large-scale growers. This results in small-scale growers receiving no real benefit from harvesting, but rather a net loss as their cane payments' statements show a zero or a negative amount. This further results in a continuous cycle of indebtedness. The payment system should be changed into a local market price rather than a weighted average system.
- *Ownership of the Mills and Participation in the Entire Value Chain:* The growers were of the view that both the small-scale growers and land reform farmers' participation and benefit in the industry is minimal. Greater participation of smaller farmers should include the ownership of mills and transport companies as well as participation in other activities along the value chain not only the supply of sugarcane, possibly through cooperatives.
- *Lack of access to new sugarcane species:* The small-scale growers raised concerns with how SASA distributed new cane species, which are developed by the South African Sugarcane Research Institute (SASRI). According to the growers, large-scale growers are given the new species at no cost; however, the larger growers then sell the new species to the smaller growers.
- *Impact of drought:* The growers highlighted the impact of drought on their yields, as they have no alternatives in times of drought leading to their crops tend to be destroyed resulting in no income to support their families. Other issues that greatly affect smaller growers

included wild fires that destroy their cane before harvest, and lack of pesticides to protect their crops.

- *Small-scale grower support:* The growers periodically received support from the then Department of Agriculture, Forestry and Fisheries (DAFF), such as fertilizers. However, they indicate that they required more support to address their other challenges. In addition, they advocated for more support from the DTI. This should focus on developing their capacity to contribute to the sugar industry value-chain beyond sugarcane production.

4.2 The impact of cheap imports and the need to amend the sugar tariff

The SASA highlighted the impact that the increase in sugar imports has had on the local price and demand for sugar. Deep-sea sugar imports⁹ increased from 51 652 tons in the 2015/16 season to 283 582 tons in the 2016/17 season, a 449% year on year increase. Furthermore, it is estimated that imports will reach 500 000 tons for the 2017/18 season. The impact of this has been a significant decline in the demand for South African produced sugar and hence its market share has also declined.

In the 2015/16 season, South African sugar accounted for 76% of sugar sales; however, this is expected to decrease to 57% for the 2017/18 season. Over the same period, imports increased from a share of 2% to 28% of sales and the supply of sugar from Swaziland and the Southern African Development Community declined from 20% to 19% and 2% to 1% respectively.¹⁰

SASA emphasised that increased imports has had an adverse impact on employment in the sector. Both SASA and SAFDA, therefore, advocated for higher tariffs on imported sugar. An application had been made to the International Trade Administration Commission of South Africa (ITAC) to consider an import tariff rate increase for the industry. The industry uses a dollar-based reference price (DBRP), which had been set at US\$566/ton, which SASA had requested to be raised to US\$856.32/ton. The DBRP is a variable tariff formula that ensures that Southern African Customs Union (SACU) sugar producers are relatively competitive to their international counterparts given their costs and the downstream price impact. The DBRP

⁹ Deep-sea imports refer to the maritime transport of goods on intercontinental routes, crossing oceans or shipping over long distances.

¹⁰ SASA (2018)

provides a swift tariff-based response, which is triggered by variations in the world price. It also factors in an adjustment for the distortion factor evident in the domestic and international sugar market of 40 per cent due to the impact of subsidies and subtracts the average ocean transport cost of sugar to a South African port of US\$31/ton. The effect of the DBRP is that as the world price drops below the reference price in the context of the formula, a tariff will be charged and when this increases above the reference price, the tariff becomes zero. However, this must be capped at the equivalent bound rate¹¹ of 105 per cent *ad valorem* tariff¹² as set in the General Agreement on Tariffs and Trade.¹³

The ITAC investigation had been finalised and an increase of US\$680/ton had been recommended and approved by the Minister of Trade and Industry in 2018 with reciprocal commitments¹⁴. However, the industry was of the view that the increase was insufficient, especially since it faced unfair competition from subsidised imports. ITAC noted that tariff protection must be complemented by addressing competitiveness constraints in sugar production and a holistic, long term view of the sugar industry is required. This should include a number of reforms to revitalise the industry and the introduction of alternative uses of sugarcane for energy and potentially, biofuels.¹⁵

The reciprocal commitments were:

- “Meaningful improvement of the price paid to small scale growers for cane delivered;
- An industry resolution to deal with challenges associated with current Daily Rateable Deliveries for small –scale growers;
- To ensure access to new cane varieties for small-scale growers; and
- The improvement of cane transport systems for small-scale growers.”¹⁶

According to the former Minister of Trade and Industry, Dr R Davies, a Sugar Value Chain Task Team was established in May 2018 including representatives from government, the beverage industry, retailers, SASA, small-scale growers, small manufacturers and the

¹¹ The bound rate is the maximum rate of tariff duty that a country has agreed to charge other member states of the World Trade Organization (WTO). If a duty is raised beyond this, the member state would be liable to compensate affected parties. (WTO n.d.)

¹² An *ad valorem* tariff means a tariff rate charged as a percentage of the price. (WTO n.d.)

¹³ ITAC (2018a) – Increase in the Dollar-based Reference Price of Sugar from US\$566/ton to US\$680/ton (Report No. 588)

¹⁴ ITAC (2018b)

¹⁵ ITAC (2018a)

¹⁶ *Minister Davies Endorses ITAC Recommendation for an Increase of Import Duties for Sugar* (2018)

Industrial Development Corporation (IDC) with a mandate to seek solutions to the challenges facing the sugar industry focusing on short and medium to long term measures. Some of the key interventions to complement the trade support included:

- Short term interventions: (i) a brief analysis of the global market of sugar; (ii) monitoring Import trends; and (iii) commitments by the upstream and downstream users
- Medium to long-term interventions: (i) competitiveness improvement programme; (ii) diversification; (iii) deepening transformation; and (iv) amendments to the sugar Act of 1979 and Agreement, 2000.¹⁷

4.3 The impact of the Health Promotion Levy on the sustainability of the sugar industry

The Health Promotion Levy on sugar-sweetened beverages (sugar tax) was introduced by the Minister of Finance in his budget speech in February 2017 and came into effect on 1 April 2018. The levy will be 2.1c/g of sugar for sugar-sweetened beverages that have more than 4g per 100ml, with the first 4g being levy free. SASA told the Committee that the sugar tax will have a significantly adverse impact on the sugar industry. It is estimated that there will be a loss in production of 13 200 hectares and job losses of approximately 3 100, which would particularly affect small-scale growers and small commercial growers.

However, according to SASA, the impact of the sugar tax when coupled with other industry challenges, such as the low world price for sugar, inadequate tariff protection and increasing input costs, would be even greater. It estimates that 20 000 direct jobs will be lost, some sugar mills will close down, and approximately 90 000 people's livelihoods would be adversely affected. Subsequently, the tax was increased on 1 April 2019 to 2,21c/g of sugar per 100ml¹⁸.

In 2017, a NEDLAC task team was established to develop mitigation measures to address the socio-economic impact of the health promotion levy on sugary-sweetened beverages, specifically to secure and grow jobs and the economy whilst achieving reduction in obesity and non-communicable disease (NCD) prevalence. The task team finalised a draft report which outlined certain areas of agreement and disagreement around the proposed jobs mitigation plan. However, there was no consensus reached or final plan developed.¹⁹

¹⁷ *Ibid*

¹⁸ Cullinan (2019)

¹⁹ NEDLAC (2017)

According to the Standing Committee on Finance’s Legacy Report, the Committee had insisted that job mitigation plans would have to be developed by all stakeholders at Nedlac before these Bills were voted on by the Committee. However, there had been concerns that the commitments made in Nedlac by National Treasury and other government departments about reducing job losses related to the implementation of the Health Promotion Levy on sugar-sweetened beverages were not being fulfilled. Therefore, it had recommended that the incoming Standing Committee on Finance should continue to monitor the progress on these Nedlac commitments and that regular reports be provided.²⁰

References

- Cullinan, K. (2019) #Budget2019: Tiny increase in sugary drinks tax. *Health-E News*, 20 February. Available: <https://health-e.org.za/2019/budget-tiny-increase-in-sugary-drinks-tax/>.
- Department of Trade and Industry (2017) *Proposed amendments to the Sugar Industry Regulation*. Presentation to the Portfolio Committee on Trade and Industry, Parliament: Cape Town, 17 November.
- Department of Trade and Industry (2018a) *Sugar Industry Report: Follow-up meeting on issues raised during sugar industry oversight visit*. Presentation to the Portfolio Committee on Trade and Industry, Parliament: Cape Town, 24 April.
- Department of Trade and Industry (2018b) *Progress on review of the Sugar Industry Regulations*. Presentation to the Portfolio Committee on Trade and Industry, Parliament: Cape Town, 13 September.
- International Trade Administration Commission of South Africa (2018a) *Increase in the Dollar-Based Reference Price of Sugar from US\$566/ton to US\$680/ton*. Report No. 588.
- International Trade Administration Commission of South Africa (2018b) *Briefing by ITAC on sugar tariffs*. Presentation to the Portfolio Committee on Trade and Industry. Cape Town: Parliament, 4 September.
- Minister Davies Endorses ITAC Recommendation for an Increase of Import Duties for Sugar* (2018) Media statement, 15 August. Available: <https://www.thedti.gov.za/editmedia.jsp?id=5538>.

²⁰ Standing Committee on Finance (2019)

National Economic Development and Labour Council (2017) *Draft NEDLAC Report on Tax on Sugar-Sweetened Beverages*. Unpublished.

Portfolio Committee on Trade and Industry (2018) *Report of the Portfolio Committee on Trade and Industry on its oversight visit to sugar cane farmers and sugar industry associations in Kwazulu-Natal from 25 to 26 January 2018, dated 14 June 2018*.

South African Farmers Development Association (2017). *Presentation to the Portfolio Committee on Trade and Industry*, 12 October. Cape Town, Parliament of South Africa.

Standing Committee on Finance (2019) *Handover Report of the Standing Committee on Finance for the Fifth Parliament: May 2014 to March 2019 as Adopted in March 2019*.

World Trade Organization (N.d.) *Glossary*. Available:
https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm.