the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OFFICE OF THE DIRECTOR-GENERAL

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Ms JL Fubbs
Chairperson
Portfolio Committee on Trade and Industry
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Dear Ms Fubbs,

RESPONSE TO THE ISSUES RAISED ON DROUGHT CONDITIONS

The Department has had several engagements with the Portfolio Committee on Trade & Industry in response to the challenges faced by the Sugar Industry including the oversight visit to the Sugar Cane farms in January 2018.

We hereby wish to respond to the questions raised by Honourable MacPherson in relation to the "impending danger to the Sugar industry", letter dated 11 February 2019.

1. DROUGHT CONDITIONS

"KwaZulu-Natal has suffered a three-year drought, which has cost the industry R2billion. During this time and to date; very to no assistance was provided to farmers including the unexplained disappearance of the drought relief funds in the Provincial Government"

Response:

We are of the view that the KZN Provincial Government should respond to this matter and that the matter be referred to the Provincial Committees.

2. DEPRESSED SUGAR PRICES

"It is estimated that 500 000 tonnes of imported sugar arrived in 2018 which could be viewed as "dumped "sugar as it is below the cost of sugar. We know that this has had adverse effects on production in South Africa and will lead to job losses if the price does not recover soon".

Response:

South Africa's industrial policy imperatives acknowledges the necessity of developmental trajectory that sustains growth and job creation, as well as structural change characterized by higher value addition and productivity. The sugar industry's contribution to the national economy and job creation is not driven only by primary production, and includes industrial investments in processing and value-add sugar related products and industries. Global sugar market environment faces significant number of tariff and non-tariff measures that distort global trade in sugar. These include production and trade subsidies, price support measures, trade restrictions and other market interventions. As a result, the price of sugar globally does not accurately reflect the cost of global sugar production.

Table 1. SA Sugar Imports

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
World	120 311	257 841	No Quantity	No Quantity	660 745	493 709	538 170	560 077	843 299	545 182
Swaziland		153 986	No Quantity	No Quantity	257 656	299 280	347 418	340 727	292 281	314 837
Brazil	111 195	97 999	137 286	179 639	381 804	146 775	127 959	119 613	243 981	75 384
United Arab Emirates	4 165	2 808	938	596	1 018	1 350	528	24 313	157 387	33 117
Thailand	3 023	6	2 045	9 119	13 338	7 315	4 632	636	23 946	24 381
France	1		0	24		4	1	10 135	0	15 158
Germany	42	64	34	30	101	93	112	248	5 541	12 049
Malawi	224						15 898	5 249	2 506	9 892
Zambia			1 443	63		0	29 496	4 007	10 129	9 751
Poland		624						3 670	3 455	7 029
El Salvador									4 495	6 633
Egypt								1 200	785	6 096
Area Nes								895		5 519

Source: TradeMap, 2018

Sugar imports are subject to the basic economic principles of demand and supply, the lower the price, the higher the demand. According to Table 1 above, the imports from the World market were approximately at 545 182 tons by December 2018, which is a significant decline from 2017/18. However, the table above also shows that there has been significant increase of duty free sugar imports from Swaziland into South Africa. This has direct negative implication for the South African share of the domestic market and the competitiveness of South Africa's sugar industry. Admittedly, each imported tonnage of cane increases the local sugar surplus, and in turn, that results into increased exports at a lower export parity price, which reduces the size of the income earned by the industry.

As a result, the flood of imports is predisposed to negatively affect the sustainability of the domestic production. The issues of global price and exchange rate fluctuations are outside the influence of a single sugar cane exporting and/or importing country. However, on the latter, there is a practical concern on efficacy of coordination mechanism to reduce the late enactment of gazetting after the new duty triggers. On the

issue of shelf price comparison, anecdotal evidence seems to indicate an inconsequential price differential between the local sugar brands and the imported brands, even though imports are relatively cheap.

3. INADEQUATE TARIFF PROTECTION

"Despite strong lobbying and agreement by all stakeholders in the industry, ITAC refused to accede to increase Dollar Based Reference Price of $856 per ton. The result is that cane growers and other industry members are unable to recover their full cost of production".

Response:

The Minister of Trade & Industry, Dr Rob Davies endorsed the International Trade Administration Commission (ITAC) recommendation for an increase of import duties on sugar to US$680/ton. ITAC is an autonomous statutory body that independently investigates and recommends reasonable and optimal tariff rates after careful consideration of variable factors and in line with the South Africa's obligation to the World Trade Organisation (WTO) This follows an application launched by SASA to ITAC in February 2018 for an increase of dollar-based duty from US$566/ton to US$856/ton and intensive investigation by ITAC.

The investigation to arrive at the recommendations is an independent process by ITAC, which included consultation and submission of inputs by all affected stakeholders. As per ITAC regulations, the Minister of Trade, and Industry is empowered legally to only support or not to support the recommendations submitted by ITAC. The tariff forms part of a set of measures considered by government, in collaboration with the industry in order to improve the sustainability of the industry and future growth prospects. Following the increase in the Dollar Based Reference Price from US$566/ton to US$680/ton, the duties on imports of sugar increased substantially and have remained at high as evident from Table 2 below. Note that the level of duties increases when international sugar prices decline and decreases when international sugar prices reduce.

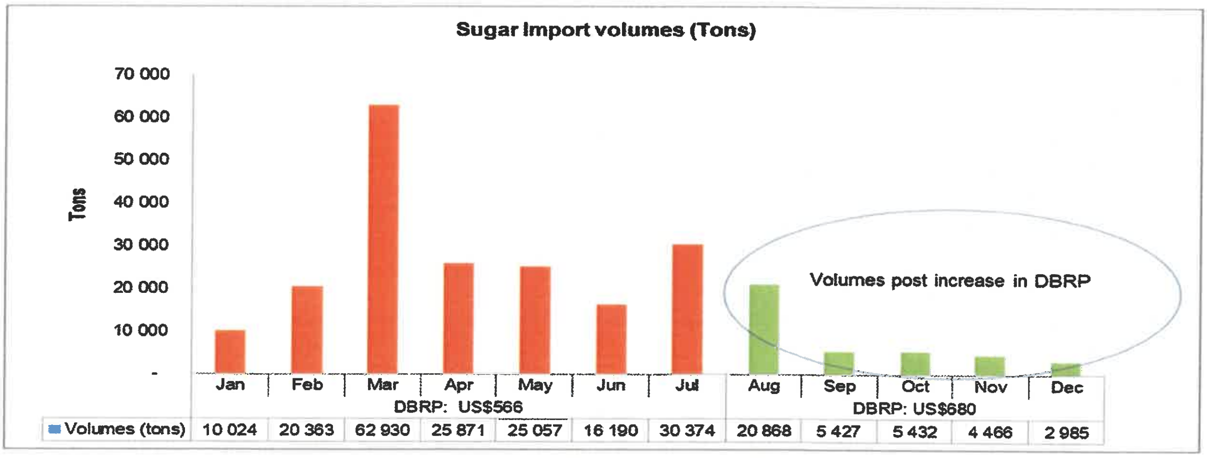
Table 2: Duty levels following the increase in the Dollar Based Reference Price

Dates: Report & triggers	Three week moving average world price at the time of trigger	Upward or downward movement in the level of customs duty	<u>Ad valorem</u> equivalent	<u>Implemented by Finance</u>
Report 588: 17/07/2018	US$347.38	***Upward*** 233.81c/kg – 419.52c/kg	87.72%	03/08/2018
Trigger 1: 06/09/2018	US$314.51	***Upward*** 419.52c/kg – 460.68c/kg	99.71%	05/10/2018
Trigger 2: 09/11//2018	US$365.02	***Downward*** 460.68c/kg - 369.57c/kg	72.28%	21/12/2018
Trigger 3: 02/01/2019	US$342.79	***Upward*** *R369.57c/kg – R401.79c/kg*	81.74%	15/02/2019

Source: ITAC

The volume of imports from Non-SACU countries has also declined significantly as can be seen from Graph 1 below. This demonstrates that the increase in the DBRP has had an impact on non-SACU imports, which is its intended purpose.

Graph 1: Decline in the volume of non-SACU sugar imports (2018)



Source: SARS and ITAC's own calculations.

4. *UPDATE ON THE REPORT OF THE PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY ON OVERSIGHT VISIT TO THE SUGAR CANE FARMERS - ENGAGE WITH THE MINISTER OF AGRICULTURE, FORESTRY & FISHERIES (DAFF) AND RURAL DEVELOPMENT (DRDLR) TO INCREASE SUPPORT TO EMERGING BLACK SUGAR CANE FARMERS*

Response:
A meeting with Department of Agriculture, Forestry & Fisheries (DAFF) took place on the 8 February 2019 and DAFF has reaffirmed its commitment to ensure that necessary support to emerging black sugar cane also the proposal that was submitted by the South African Farmers Development Association (small cane grower organization) to DAFF and engagements are in progress.

Yours Sincerely,

Lionel October
Director General

Date 19 February 2019