

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 10/1/2010

GAIN Report Number:

South Africa - Republic of

Sugar Semi-annual

The report discusses sugar production and demand in South Africa

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Report Highlights:

Sugar cane production in South Africa will continue to decline in the 2010/11 season due to adverse weather conditions, outstanding land reform claims, and increased production costs. The estimate for the 2010/11 season sugar cane crop is 17.53 million tons, which is 6 percent lower than last year's sugar cane crop of 18.66 million tons. Sugar production for the 2010/11 season is estimated at 2.07 million tons Tell Quell (2.14 million tons raw value), which is 5.6 percent lower than the 2009/10 season's sugar production of 2.19 million tons Tell Quell (2.27 million tons raw value). South Africa's sugar exports for the 2010/11 season are estimated to decline slightly to 800,000 tons, in line with declining production and a stronger South African Rand against the dollar.

Executive Summary:

Dry weather conditions should push the 2010/11 season sugar cane crop down six percent lower than the previous year to 17.53 million tons. Last year's crop of 18.66 million was already 600,315 tons or 3.1 percent lower than the previous season. For the 2010/11 season sugar production is estimated at 2.07 million tons Tell Quell (2.14 million tons raw value or MTRV). Sugar production for the 2009/10 season was finalized at 2.19 million tons Tell Quell (2.27 million MTRV), 3.6 percent less than in the 2008/09 season.

South Africa exported 552,461 tons of raw sugar and 259,267 tons (277,416 MTRV) of refined sugar during the 2009/10 season. The 2009/10 season's sugar exports represent 38 percent of total production, of which 22,806 tons benefited from preferential access to the United States. Sugar exports for the 2010/11 season are expected to be at the same level as the current year at around 800,000 tons. South Africa has already delivered 23,205 tons on their 2010/11 United States tariff rate allocation and an extra 12,674 tons on the 2009/10 allocation.

The South African Government plans to review its Sugar Act by the end of November 2010. Some analysts predict significant changes will be made to the structure and agreements of the sugar industry in South Africa.

Sources:

<http://www.sasa.org.za>

<http://www.illovo.co.za>

<http://www.huletts.co.za>

<http://www.tsb.co.za>

<http://www.sacane growers.co.za>

US\$1=R6.97 (09/30/2010)

Sugar cane

Production

Sugar cane production will continue to decline in the 2010/11 (April/March) season (see also Figure 1) due to adverse weather conditions. Large parts of the KwaZulu-Natal province, where 75 percent of South Africa's sugar cane is produced, continue to experience widespread drought. Sugar cane farmers also received minimal rainfall during the critical growing months of January to April throughout the province. Some farmers have compared the current situation to the 1992 drought where rainfall was up to 60 percent lower than the long-term average. Illovo Sugar, Africa's biggest sugar producer, recently issued a shareholder warning that predicts that company earnings will fall as much as 30 percent due to lower production, less exports and a relatively strong rand.

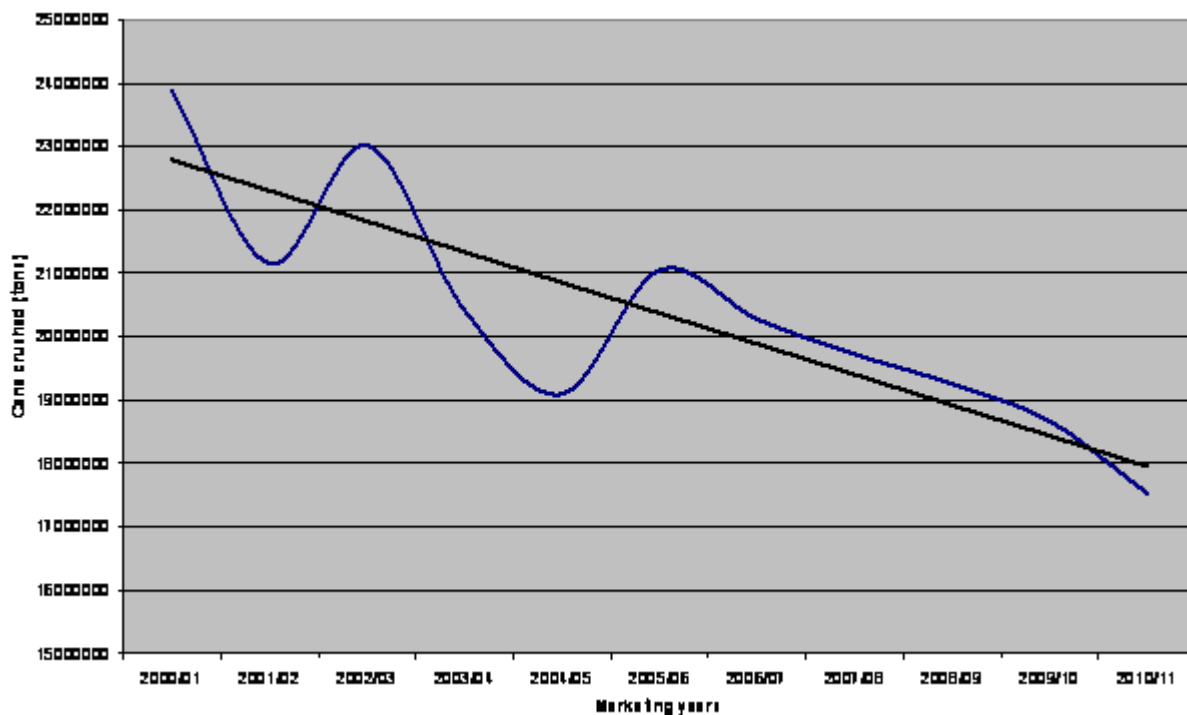


Figure1: The declining trend in sugar cane production in South Africa

The drought will negatively impact sugar cane yields and place further pressure on the already financially strained cane growers ([See also April 2010 South Africa Sugar Annual Report](#)). A further risk in dry conditions is cane stool mortality which can exacerbate yield loss in future years.

The current estimate for the 2010/11 season sugar cane crop is 17.53 million tons. This is 1.1 million tons or 6 percent lower than last year's sugar cane crop due largely to the existing drought throughout

the sugar cane producing area. The sugar area to be harvested for the 2010/11 season is estimated to decline by 4 percent to 280.0 million hectares. Total sugar area harvested in the 2009/10 season was 291.8 million hectares, 6.3 percent lower than the 311.4 million hectares harvested in the 2008/09 season.

For the 2010/11 season, sugar production is estimated at 2.07 million tons Tell Quell (2.14 million MTRV), with a cane to sugar ratio of 8.49. The 2009/10 season sugar production was 2.19 million tons Tell Quell (2.27 million MTRV), 3.6 percent less than in the 2008/09 season. Table 1 illustrates the production of sugar in South Africa for 2008/09 (actual), 2009/10 (actual) and 2010/11 (estimate) marketing years.

Table 1: The production of sugar in South Africa

Season	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (MT*)	Cane/sugar ratio
2008/09	413,566	311,425	61.8	19,255,404	2,269,087	8.49
2009/10	391,483	291,770	63.9	18,655,089	2,187,542	8.57
2010/11	390,000	280,000	62.6	17,531,000	2,065,000	8.49

*Tel Quell x 1.035 = Raw value, Refined x 1.07 = Raw value

Existing land claims under South Africa's Land Reform Policy continue to be a major constraint for sugar cane growers in South Africa. More than 52 percent of the sugar cane area is currently subject to land claims and less than 10 percent have been resolved. The uncertainty of land reform has negatively affected investment in sugar cane production.

Cane prices

The South African sugar industry exports nearly 40 percent of its sugar production to the world market annually. In order to distribute exposure to the world market equitably among growers and millers, the South African Sugar Association (SASA) has implemented a Division of Proceeds. The Division of Proceeds is the formula where revenue that accrues to the sugar industry is allocated to millers and growers under a partnership arrangement. The Sugar Act and the Sugar Industry Agreement provide regulatory support for the Division of Proceeds.

Industry revenues earned from domestic and export sales of sugar and molasses are accounted for by the SASA. After the deduction of administration costs, the net proceeds are shared between growers and millers at a predetermined percentage of net proceeds (see also figure 2). Cane growers are thus paid for their sugar cane according to the quality of the cane delivered to the mill through this revenue sharing arrangement. Cane quality is measured by the Recoverable Value (RV) formula, which

estimates the amount of sugar and molasses that can be produced from a delivery of cane. A provisional Recoverable Value (RV) price is declared monthly during the season which is applied to all cane delivered to date. A final RV price for the season is declared in March of each year.

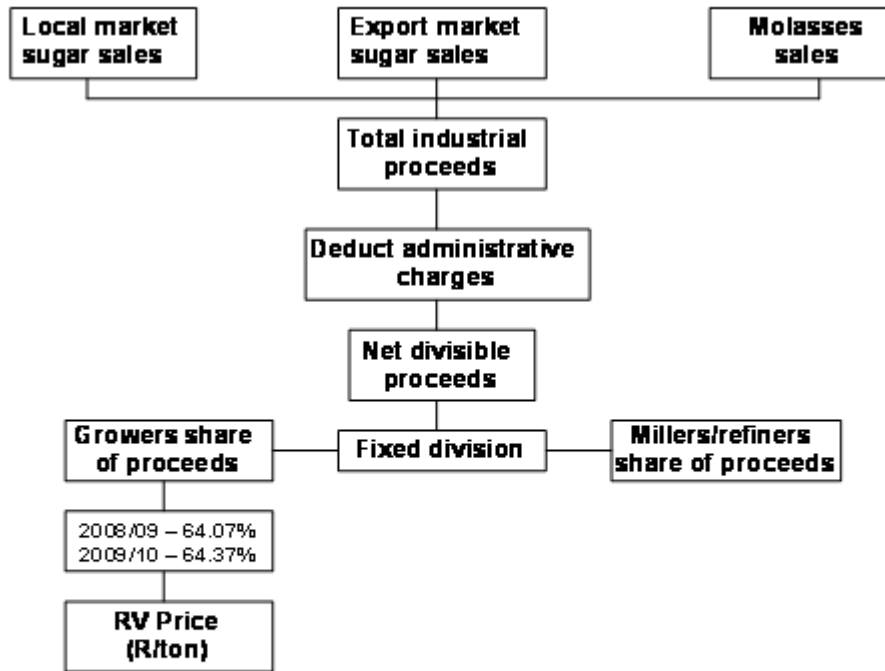


Figure 2: The Division of Proceeds

The August 2010 monthly Recoverable Value (RV) price for sugar was set at R2,549.99 per ton. This price was nearly 12 percent higher than the previous season’s RV price of R2,284.20 and reflects decreased domestic sugar production. Average cane and RV prices the past 9 years for the industry paid by millers to growers are shown in Table 2.

Although cane quality declined slightly in the 2009/10 season, net industry proceeds increased to R8.36 billion from R7.6 billion in 2008/09. Increased revenues were fueled by higher export prices. The sustained domestic demand for South African sugar and improved local marketing kept domestic prices firm.

Table 2: Average Recoverable Value and cane prices

Year (Apr – Mar)	RV Price (Rand)	Cane Price (Rand)	R/\$ Exchange rate
2002/03	1 368.79	171.78	9.72

2003/04	1 357.01	169.08	7.17
2004/05	1 297.19	159.55	6.26
2005/06	1 389.80	173.59	6.40
2006/07	1 701.86	198.78	7.04
2007/08	1 701.90	208.82	7.13
2008/09	2 011.18	251.00	8.87
2009/10	2 284.20	284.15	7.80
2010/11*	2 549.99	300.00	7.30

* Preliminary

Review of the Sugar Act (1978) and Sugar Industry Agreement (2000)

The South African industry is regulated to facilitate the relationship between growers and millers and to protect the industry against trade distorting measures, which exist on the world market. The South African Sugar Association (SASA) was created under the Sugar Act (Act 9 of 1978) which provides for the Sugar Industry Agreement used to regulate the affairs of the industry. The SASA is an autonomous organization free of government control. The interdependence of millers and growers in the sugar industry has driven SASA to be structured around partnerships. The South African Cane Growers' Association and the South African Sugar Millers' Association Ltd are equal partners in the SASA and are represented by equal members on the consensus based SASA Council.

The Sugar Act has been amended from time to time in response to changing circumstances in the industry and the environment in which it operates. Another review of the Sugar Act will be completed in November 2010. Some analysts predict significant changes will be made to the structure and agreements of the sugar industry in South Africa. However, the financial viability of cane production will rely on reinvestment in farm land.

Sugar Cane for Centrifugal South Africa	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	414	414	414	405	405	391	405	405	390
Area Harvested	311	311	311	300	300	292	301	301	280
Production	19,255	19,255	19,255	18,655	18,655	18,655	18,670	18,670	17,531

Total Supply	19,255	19,255	19,255	18,655	18,655	18,655	18,670	18,670	17,531
Utilization for Sugar	19,255	19,255	19,255	18,655	18,655	18,655	18,670	18,670	17,531
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	19,255	19,255	19,255	18,655	18,655	18,655	18,670	18,670	17,531

Sugar

Production

For the 2010/11 season sugar production is estimated at 2.07 million tons Tell Quell (2.14 million MTRV), which is 5.6 percent lower than the 2009/10 season's sugar production of 2.19 million tons Tell Quell (2.27 million MTRV).

Consumption

The South African Customs Union (SACU) is the primary market for the South African sugar industry. The SACU market comprises South Africa, Botswana, Lesotho, Namibia and Swaziland. The SACU market is regulated by the Southern African Development Community Sugar Cooperation Agreement. South Africa and Swaziland are the only sugar producers in SACU and together produce in excess of the region's sugar demand, which was 1.92 million tons in 2009/10.

The per capita consumption for sugar in SACU has decrease in the 2009/10 season to 34.5kg from 35.8kg in the 2008/09 season. The main reasons for this decline were the increase in the retail price of sugar and the slow recovery of the South African economy after the 2008 financial crisis. However, the long-term prospects for increased sugar consumption remain good as the South African economy is expected to grow by more than 3 percent per annum from 2011. Table 3 illustrates the retail prices of a 1 kilogram bag and 2.5 kilogram bag of sugar in South Africa.

Table 3: The retail price trends of sugar in South Africa

Product	Price level (R/bag)				Percentage change		
	Apr 2009	Jul 2009	Apr 2010	Jul 2010	Apr 09 to Apr 10	Jul 09 to Jul 10	Apr 10 to Jul 10
White sugar 1kg bag	9.17	10.79	9.62	9.73	4.91	-9.82	1.14
White sugar 2.5kg bag	17.65	18.02	18.92	18.85	7.20	4.61	-0.37

Source: NAMC

The South African sugar industry supplied 1.49 million tons and Swaziland 325,000 tons of sugar to the SACU market in the 2009/10 season. For the 2010/11 season, South African sugar sales into the SACU market are expected to increase by 2 percent to 1.52 million tons inline with an increase in demand. Of South Africa's SACU sales, approximately 42 percent is sold to industrial customers, with the balance sold directly to consumers at retail. Approximately 80 percent of sugar sold to costumers is refined sugar and the balance brown sugar. Table 4 contains South African sugar sales into the SACU market for the 2008/09 (actual), 2009/10 (actual) and 2010/11 (estimate) marketing years.

Table 4: South African sales of sugar into the SACU market

MT *	2008/09	2009/10	2010/11
White sugar	1,162,113	1,178,156	1,212,520
Brown sugar	264,949	307,774	303,130
Direct sales	822,224	858,070	879,077
Industrial sales	604,838	627,860	636,573
Total sales	1,427,062	1,485,930	1,515,650
MTRV	1,526,956	1,589,945	1,621,745

*Refined x 1.07 = Raw value

Trade

South Africa exported 552,461 tons of raw sugar and 259,267 tons (277,416 MTRV) of refined sugar during the 2009/10 season. The 2009/10 sugar exports were 38 percent of total production, of which 22,806 was exported to the United States. World market sugar prices reached a 28 year high during the 2009/10 season as a result of tight available supplies in India. This resulted in a increase to 16.47USc/lb (inclusive of preferential US market prices) in the average sugar price achieved by SASA's world sugar exports, compared to 12.55USc/lb during the previous season. This represents a 31 percent increase. Despite reduced exports volumes and a firmer R/US\$ exchange rate in 2009/10, the higher world market price resulted in a 15 percent increase in export revenue, from R2.0 billion in 2008/09 to R2.3 billion in 2009/10.

Sugar exports for the 2010/11 season are expected to be at the same level as the current year despite lower production. South Africa's sugar is mostly exported on standing contracts and sugar exports are expected to be around 800,000 tons. South Africa has already delivered 23,205 tons on their 2010/11 Unites States tariff rate allocation and an extra 12,674 tons on the 2009/10 allocation.

Exports and imports for raw sugar and refined sugar for the 2009/10 marketing year are shown in the trade matrixes. For the 2010/11 marketing year imports and exports from April 2010 to June 2010 are shown. Indonesia (155,450 tons), Japan (131,750) tons and Bangladesh (50,125 tons) were the major

export destinations outside the SACU market for South African sugar. Sugar imports represent approximately five percent of production and are mostly from Brazil.

Export Trade

Country	South Africa,		
Commodity	Cane Sugar		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/11*
U.S.	22 806	U.S.	0
Others	Others		
Indonesia	155 450	Japan	30 000
Japan	131 750	Mozambique	18 608
Mozambique	54 077	Angola	6 566
Bangladesh	50 125	Zimbabwe	6 121
Iran	33 000		
India	30 000		
Russia	25 000		
Zimbabwe	33 098		
Total for Others	512 500		61 295
Others not Listed	17 155		1 767
Grand Total	552 461		63 062

*April to June

Export Trade

Country	South Africa,		
Commodity	Refined sugar*		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/2011**
U.S.	0	U.S.	0
Others	Others		
Mozambique	89 752	Mozambique	16 226
Sudan	35 130	Madagascar	6 720
Madagascar	23 050	Kenya	4 297
Kenya	21 016	Uganda	4 116

Angola	22 566	Zimbabwe	2 510
Tanzania	17 417		
Uganda	17 040		
Zimbabwe	10 414		
Total for Others	236 385		33 869
Others not Listed	22 882		7 200
Grand Total	259 267		41 069

*Refined x 1.07 = Raw value

**April to June

Import Trade

Country	South Africa,		
Commodity	Cane Sugar		
Time Period	My	Units:	Mt
Imports form:	2009/10		2010/11*
U.S.	0	U.S.	0
Others		Others	
Brazil	32 941	Brazil	3 875
Total for Others	32 941		3 875
Others not Listed	2 833		30
Grand Total	35 774		3 905

*April to June

Import Trade

Country	South Africa,		
Commodity	Refined sugar*		
Time Period	My	Units:	Mt
Exports to:	2009/10		2010/11**
U.S.	0	U.S.	0
Others		Others	
Brazil	61 434	Brazil	14 146
United Arab Emirates	3 905		

Total for Others	65 339	14 146
Others not Listed	909	2 063
Grand Total	66 248	16 209

*Refined x 1.07 = Raw value

**April to June

Sugar, Centrifugal Africa	South	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010		
		USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks		227	227	227	30	30	30	49	49	70
Beet Sugar Production		0	0	0	0	0	0	0	0	0
Cane Sugar Production		2,350	2,350	2,350	2,254	2,254	2,265	2,250	2,250	2,140
Total Sugar Production		2,350	2,350	2,350	2,254	2,254	2,265	2,250	2,250	2,140
Raw Imports		78	78	78	50	50	50	60	60	70
Refined Imp.(Raw Val)		90	90	90	150	150	150	170	170	180
Total Imports		168	168	168	200	200	200	230	230	250
Total Supply		2,745	2,745	2,745	2,484	2,484	2,495	2,529	2,529	2,460
Raw Exports		505	505	505	600	600	552	550	550	550
Refined Exp.(Raw Val)		680	680	680	270	270	277	250	250	250
Total Exports		1,185	1,185	1,185	870	870	830	800	800	800
Human Dom. Consumption		1,525	1,525	1,525	1,560	1,560	1,590	1,590	1,590	1,620
Other Disappearance		5	5	5	5	5	5	5	5	5
Total Use		1,530	1,530	1,530	1,565	1,565	1,595	1,595	1,595	1,625
Ending Stocks		30	30	30	49	49	70	134	134	35
Total Distribution		2,745	2,745	2,745	2,484	2,484	2,495	2,529	2,529	2,460