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SASA'S REPORT TO THE PARLIAMENTARY PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY FOLLOWING THEIR VISIT

1. PREAMBLE

SASA has had sight of the report following the Parliamentary Portfolio Committee (PPC) visit and is grateful for the opportunity to provide a response through the dti.

SASA, SAFDA, SACGA, SASMA and the dti have, from December 2017 to March 2018, had continuous engagements, negotiated settlement, prepared the amendments and agreed the transitional arrangements associated with the revised and agreed industry structures, and continue to engage in a constructive manner to benefit the industry as a whole. The dti and the South African Sugar Association (SASA) continue to work diligently with SASMA, SACGA and SAFDA to resolve the issues raised by SAFDA, the dti and the PPC.

The mediation, through Charles Nupen, resulted in agreement between the parties in December 2017. The agreement included a payment towards retrospective levies to SAFDA and any other SAFDA costs for the period 25 November 2015 to 31 March 2018, and the granting of three SAFDA members an observer status with a voice on SASA Council and its Committees.

The parties had resolved that the best way to effect the agreement was through proposed amendments to the SASA Constitution and the SIA.

The amendments to the SASA Constitution and the Sugar Industry Agreement cater for two members of SASA, the Cane Farmers' Federation (CFF) and Sugar Milling & Refining Federation (SMRF). Through the CFF, SACGA and SAFDA and any other cane growing entities which meet certain criteria, will be able to actively participate in SASA and in all regional structures where decisions are made. The CFF representation is determined on the basis of cane delivery and membership. The SMRF will be based on proportional representation (members/production). SASA Council will be chaired by an independent Chairperson and the Department of Trade and Industry has an observer status. Both CFF and SMRF will each nominate 16 Councillors to SASA.

The amendments also permit SACGA and SAFDA and any other qualifying cane growing entities to levy their members for their costs.

The industry leadership have agreed transitional arrangements for up to 30 September 2018 as part of the amendments. This will assist all parties to ease into the new legislation especially since the new representative structures will require some time to establish its identities. As part of these transitional arrangements the grower representation of SASA delegates, Councillors, SASA Committees, and at all regional structures will be equally represented by SACGA and SAFDA. In respect of levies SASA shall, through the millers, collect monthly levies from all growers and shall pay the proportionate amounts to the Interim CFF, SACGA and SAFDA (in accordance with the estimated budgets). For the duration of the transitional arrangements, SASA has offered to serve a secretariat function for an interim CFF, while SAFDA and SACGA establish the CFF.

SASA welcomed the visit from the PPC and it is hoped that it offered valuable insight into the status of the sugar industry.

This report aims to provide the PPC with adequate and detailed responses to their report and to give the PPC the assurance that the industry leadership, comprising the dti, SASA, SACGA, SAFDA and SASMA will be addressing its concerns.

The industry leadership has agreed to investigate all challenges raised by the PPC, with a view to finding solutions that are fair and equitable to all. This will include the amendment of the legislation where necessary. It also acknowledges that resolution of issues require time and extensive consultation to ensure the best solution possible.

The current legislative framework of the industry makes reference to the principle of equality of treatment of all growers, millers and refiners. This provision is applicable when implementing all the provisions of the sugar legislation that impact on growers and other role players in the industry. (Section 5 of the Sugar Act). The industry leadership have agreed that where it is established that there is a contravention to this provision, it will take appropriate steps to remedy the situation.

2. PART A – VISIT TO THE SMALL SCALE FARMING SECTOR

Following the visit to the small-scale growers the following issues were raised by the PPC which require response.

2.1 Daily Rateable Deliveries

The legal requirement is that delivery allocations to individual growers are determined by local Mill Group Boards (MGBs) in consultation with the mills.

MGBs are juristic bodies whose principle object is to promote the interests of the mill and all the growers delivering to that mill. They have the power in terms of the legislation to determine their own rules and procedures in executing their sugar legislation obligations. Part of their legal functions is to co-ordinate the delivery of cane to mills. The purpose of this allocation is to ensure the efficient running of the mill with a continuous stream of cane delivery into the mill.

The MGB's membership is made up of equal representation from the Local Miller and the Local Grower Council (representing the local supplying growers). The amendments to the legislation, (currently pending promulgation) will result in the Local Grower Councils being replaced by the Local Mill Area Grower Entity proportionate to the local membership of SACGA, SAFDA and any other Cane Growing Association. The Local Mill Area Grower Entity will appoint members to the MGB, thereby giving all parties an opportunity to participate in the decisions regarding rateable deliveries.

SASA requested information from all MGBs on the rules and procedures currently adopted in the allocation of cane deliveries. At the time of writing this report twelve of the fourteen Mill Group Boards had provided their rules to SASA who evaluated the responses. The responses have not reflected any transgression or breach to the equality provision of the Sugar Act. However SASA will query with the remainder of the MGBS and if a breach is noted, the MGBs will be called upon to immediately desist and amend such rule.

2.2 SSG's farms distance to mills, transport costs and Farm Gate Price Determination for Small Scale and Land Reform Growers

The cost of transport for delivery of cane to the mill gate rests with the growers and these costs are embedded in the 64% growing share of the net divisible proceeds as agreed between the millers and the growers. Any change hereto can be discussed and agreed to between the Federations, once they have been established through the amended legislation (still to be promulgated).

From a regional perspective, the existence and extent of small scale grower cane farming operations varies significantly between the 14 mill areas. The issue of transport arrangements for small scale growers is therefore best dealt with at a local mill area level.

The amended legislation, once promulgated, will allow for each cane growing organisation (SAFDA and SACGA) to be represented on the Local Mill Area Grower Entity. A Local Mill Area Grower Entity may negotiate with a mill on behalf of all the growers contracted to deliver cane to such mill on any matter relative to cane deliveries or cane supply which affects all its growers.

Upon the promulgation of the amended legislation and the formulation of the Local Mill Area Grower Entities, the industry leadership will engage them further on the challenges and the constructive options available that will ultimately develop, grow and empower all stakeholders in the industry supply chain.

2.3 The challenges raised in Items 2.1 and 2.2 above

In respect of the concerns raised in 2.1 and 2.2 above, the industry leadership undertakes to formulate a facilitated task team comprising the regional persons who will be mandated to investigate the issues and come up with agreeable workable solutions, if required.

2.4 Ownership in Mills and Participation in the entire Value Chain

SASA confirms that this is a sugar milling sector matter and is aware that SASMA has already started engaging with the dti on possible transformation initiatives in the sugar milling sector and its related value chain.

SASA supports transformation of the entire sugar industry and will actively support both its members (the Federations) in pursuing meaningful transformation initiatives where required. Currently milling companies comply with the BEE codes and have BEE scorecards.

2.5 Small Scale Grower Support

SASA contributes approximately R70 million per annum to the development of small scale and land reform growers using the following vehicles:

2.5.1 The Supplementary Payment Fund, initiated in 2005/2006, aims to boost the income of small scale growers. Approximately R300 million has been paid to date. In 2017/2018 a total of 11 774 registered growers, which included 103 small-scale grower projects and co-operatives (6 916 beneficiaries) who delivered cane benefited from the supplementary payment valued at R54 million.

2.5.2 SASA works with government in Land Reform initiatives to effect the sustainable settlement for land claims in the industry. Approximately 22.3% of commercial cane land (76 000 hectares) have been transferred to land reform growers.

2.5.3 SASA actively participates in rural development by building the capacity and skills of black growers through the strategic allocation of the GDA (Grower Development Account) resources. SASA also releases and administers funds from the GDA to subsidise agricultural training for land reform farmers and small-scale growers. SASA has to date invested over R206 million for the development of black growers towards capacity building. Since 2011 the GDA has also provided over R12 million for the training and skills development of 3 678 black growers.

2.5.4 SASA's Shukela Training Centre provides accredited essential skills courses to develop all skills in the sugar industry. The STC conducts certificate courses in sugarcane agriculture and guide growers in running successful enterprises. Through GDA funding, STC trained 595 growers. 24 Growers attended the Senior Certificate courses and a further 52 growers attended the Junior Certificate courses.

2.5.5 SASA's Umthombo Agricultural Finance (UAF) division provides financial services, specifically the retention savings facility (15 000 members, R125 million) and loan administration (1 165 accounts, R73 million) for small scale and land reform growers. UAF also manages the R35 million facility sourced from the Department of Agriculture, Forestry and Fisheries (DAFF) under the Micro Agricultural Financial Institutions of South Africa (MAFISA).

2.5.6 The Sugar Industry Trust Fund for Education provides Bursaries and drives educational projects across KwaZulu-Natal and Mpumalanga. SITFE has awarded over 10 200 bursaries since its inception. Annually SITFE awards 41 bursaries to recipients who predominantly come from poor households in rural KZN, who may not necessarily otherwise have access to funding to study in the fields of Agriculture, Engineering and Science. In 2016, it also introduced bursaries for the children of farmworkers in any field of study at universities of their choice.

2.5.7 The South African Sugar Research Institute through its biosecurity and extension specialists provides support and advice on land use, fertiliser applications, varieties, and ratoon management arising from the latest research to the small-scale growers at no cost, and in partnership in KwaZulu-Natal with the Department of Agriculture and Rural Development. (Commercial growers pay for this service.)

SASA is committed to improve the plight of small scale growers and would welcome further support from the dti and any other government department to assist. SASA is also willing to offer its infrastructure and administrative expertise to deliver such support and assistance.

2.6 Local Market based cane price for Small scale growers

SASA has already explored the concept of local market based payment for small scale growers. The industry has to be sustainable to afford a preferential cane price mechanism for small scale growers. Unfortunately it is not sustainable under current circumstances. The reality of achieving this is however largely dependent on the successful review of the industry's import duty. The current dire financial situation of the industry as a result of extreme volumes of imports is a significant impediment to achieving a preferential cane payment system for small scale growers. The Industry leadership have been engaging the dti and government bodies on the challenges it faces and looks forward to further engagements and support from government on these matters.

In spite of this challenge SASA currently provides a Supplementary Payment Fund (approximately R55 million per annum) as a premium over and above the average cane price for growers who deliver less than 5000 tons of cane in a season. (See 2.6.1).

2.7 Lack of access to new sugarcane varieties (developed by SASRI)

SASRI, a division of SASA, develops new and improved varieties suited to the unique agroclimatic conditions that prevail in all regions of the South African sugar industry. When new pre-release varieties are identified as likely candidates for release, and due to the limited volumes of seed cane available, they are distributed from SASRI's research stations in limited quantity, and at no cost, to co-operators in each region to enable the limited material to be bulked up prior to release. Any grower may be contracted as a bulking co-operator provided they can fulfil the requirements for the new varieties that include available water, appropriate soil type and extended fallow on the selected fields. It is of critical importance that the new pre-release variety is given the requisite agronomic care to enable it to grow to harvest. In view of the potential for the pre-release variety to not meet the required performance standards or to succumb to local pests and diseases, it may have to be destroyed, and hence there is considerable risk associated with being a co-operator.

This pre-release bulking procedure is necessary so that the limited quantity of seed cane of a new variety (approximately 50 tons) can be increased prior to release. The following year, when the variety is released (if free from disease and pest susceptibility), very limited quantities of the seed cane may become available to all growers at no cost. Should a local mill area take the decision that the co-operators should conduct a second round of bulking in order to further increase the quantity of seed cane available, then at harvest it is sold by the co-operator to any grower that wishes to have the new variety at the current seed cane rate. Once again the volume of seed cane of the new variety is relatively small, and so in most cases growers buying the seed cane plant it into their own farm nurseries to bulk them up further for their own use.

Following the concerns raised, SASA has commenced reviewing this bulking procedure in each of the mill areas and in conjunction with its Local Pest, Disease and Variety Control Committees and extension employees will review its procedures to ensure it suits each local area.

2.8 Impact of drought

The drought affects the livelihoods of people employed directly or indirectly by the industry. Although drought affects all growers; small scale growers, land reform growers and new entrant growers are usually hardest hit. Most growers try their level best to survive the impact of drought but without external help they may be forced to opt for drastic measures like disposing of some farm assets, seeking off-farm employment, adhering strictly to pre-determined recovery plans subject to external monitoring and even selling farms or abandoning sugarcane production. In like fashion, the mills in the industry may also remain closed for extended periods due to a lack of cane availability within the milling area. The positive socio economic contribution of the industry may also be stunted.

SASA, in its commitment to improve the plight of small scale growers would welcome financial and any other support from the DTI and any other government departments and would offer its infrastructure and administrative expertise to deliver such support and assistance.

3. PART B – VISIT TO THE INDUSTRY SUPPORT STRUCTURES – STATE OF GLOBAL SUGAR MARKET & INDUSTRY CHALLENGES

3.1 Crisis of sugar imports

Sales of South African sugar in the local market performed dismally in the 2017/2018 season, coming in just under 30% or 471 000 tons against the previous season. This is a direct result of increased supply deep sea imports. The table below shows trends in terms of South Africa's sales into the SACU market as well as supply by other sources.

Imports from Swaziland have remained relatively flat at around 400 000 tons over the last three seasons. However, deep sea imports have increased more than nine fold from the 2015/2016 season.

Table: Sugar supplies into the local market

	2017/2018	2016/2017	2015/2016
Swaziland	390 000	379 083	408 753
SADC	5 922	9114	39 564
Deep Sea	**514 651**	**174 000**	**51 652**
Total imports	910 651	562 197	499 969

This flood of deep sea imports is a direct result of the ineffective protection. The current Dollar Based Reference Price is $566, a level initially set in April 2014 and maintained again in July 2017. This was against an industry calculated level of $812. The more than tenfold increase in deep sea imports is evidence of the ineffective tariff application.

Each ton of imported sugar displaces local sugar into the loss making export market. On average, there is differential of approximately R4 500 per ton between sugar sold in the local market and export market. This translates to loss of earnings on more than R2 billion in the current season.

Based on data from Landsell Mill Company (LMC), an international research firm based in London, South Africa ranks among the top 15 low cost producers of cane sugar in the world. Naturally, costs will vary in drought stricken seasons, however South Africa ranks as one of the most competitive producers of more than 120 producing countries.

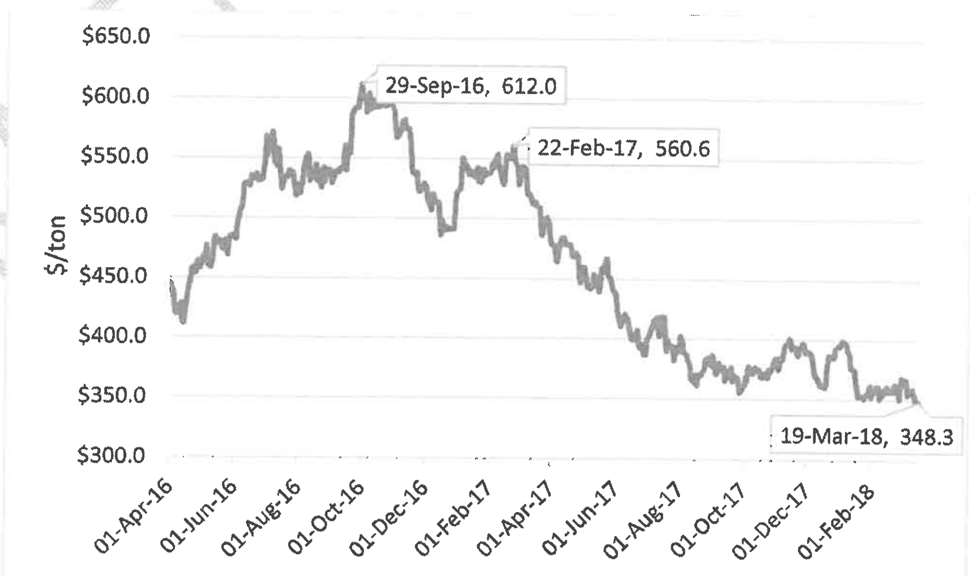
SASA would appreciate the support and intervention to assist the industry in respect of the imports that flood the local market.

3.2 Sugar Tax on sugar containing beverages – Health Promotion Levy (HPL)

The levy comes at a massive cost to the industry with the loss of a potential 200kt of local market sales, loss of jobs and potential closure of mills, and further exposure to the loss making world market. The socio economic impact of the levy was studied by the Bureau of Food and Agricultural Policy (BFAP) who concluded that the levy would result in a 200k ton decrease in the demand for sugar, a 13 200 hectare loss in cane production accompanied by 3129 job losses. BFAP predicted that this impact would be further exacerbated over the next seven years due to low world price for sugar, inadequate tariff protection and rising input costs resulting in the loss of over 20 000 direct jobs and the closure of two mills. Mitigation to circumvent the impact of the tax on the sugar industry that are supported by SASA include an effective import tariff for sugar, local procurement of sugar, addressing cost drivers such as water and electricity, alternative uses of sugar such as ethanol and cogeneration and support for small scale growers who would be most adversely affected by the levy. The BFAP report is attached.

3.3 Sugar Exports

World market prices have fallen in the course of the season from April 2017, as a result of world production outstripping the consumption of sugar. On this basis, a surplus of sugar exists globally, depressing international pricing. The graph below illustrates the fall in the London No. 5 price for white sugar.



The international prices have a direct impact on the prices achievable when selling export sugar from South Africa. Even in premium markets, such as the US, the EU and China, prices achieved are significantly below the cost of production.

4. SOUTH AFRICAN SUGARCANE RESEARCH INSTITUTE (SASRI)

SASRI serves the industry by conducting agricultural research to meet the requirements related to the growing and production of sugarcane. This is accomplished through a rigorous research, development and technology exchange programme that responds to industry sustainability and profitability needs and that is cognisant of global developments in sugarcane research.

In respect of the issues highlighted following the PPC engagement, Industry leadership confirms the following:

4.1 The matter of access to new varieties was dealt with in para 2.8 above.

4.2 Developing new skills through mentoring

SASRI is committed to develop skills of students and growers and by way of example, in the 2016/2017 season 222 students attended the Senior and Junior Certificate courses in sugarcane agriculture. 115 Grower Days and exhibitions were held, 370 Conference presentations, workshops, refresher courses, seminars and demonstrations were conducted and 123 study group sessions for all growers were held regionally. Furthermore 30 Modular courses aimed at the small-scale and land reform growers were held regionally, focussing on cane quality, harvesting, soil conservation, herbicides, irrigation and financial management.

4.3 Access to information and resources for all industry players

Information is available and distributed to all growers in information sheets, bulletins, journals and newsletters published by SASRI. SASRI publishes approximately 3 editions each year of *The Link (english), Ingede* (isiZulu), "*Die Laeveld Insig*" "*The Lowveld Insight*" (english and afrikaans), and in order to maximise its audience contributes to other local newsletters e.g. *Coastal News.* SASA also publishes the Sugar Journal, an electronic magazine which is widely circulated and available to all stakeholders in the Industry. All growers have access to knowledge through the growers days held at different venues (115 in 2016/2017). At grower days posters in both english and isiZulu are used to assist in demonstrating good farming practices. Furthermore SASRI uses the medium of radio to communicate to small-scale growers. (Over 80 radio programmes were broadcast in isiZulu at 10 radio stations within KwaZulu-Natal in 2016/2017.)

In spite of the above, SASA's position is that if information and resources are not accessible to growers, this should be reported to SASA, who will investigate the matter further and should there be transgression, SASA will remedy the situation. SAFDA and SACGA will be informed to detail specific incidences.

5. CONCLUSION

The amendments to the sugar legislation is the start of a journey that dti, SASA, SAFDA, SACGA and SASMA are committed to undertake together. All parties agree that there is a need to review and investigate the challenges outlined in the PPC report as a joint effort. While there may be no solid solutions that can be immediately implemented the parties have agreed that constructive engagement will result in workable solutions that will support all parties in the sugar industry value chain.