



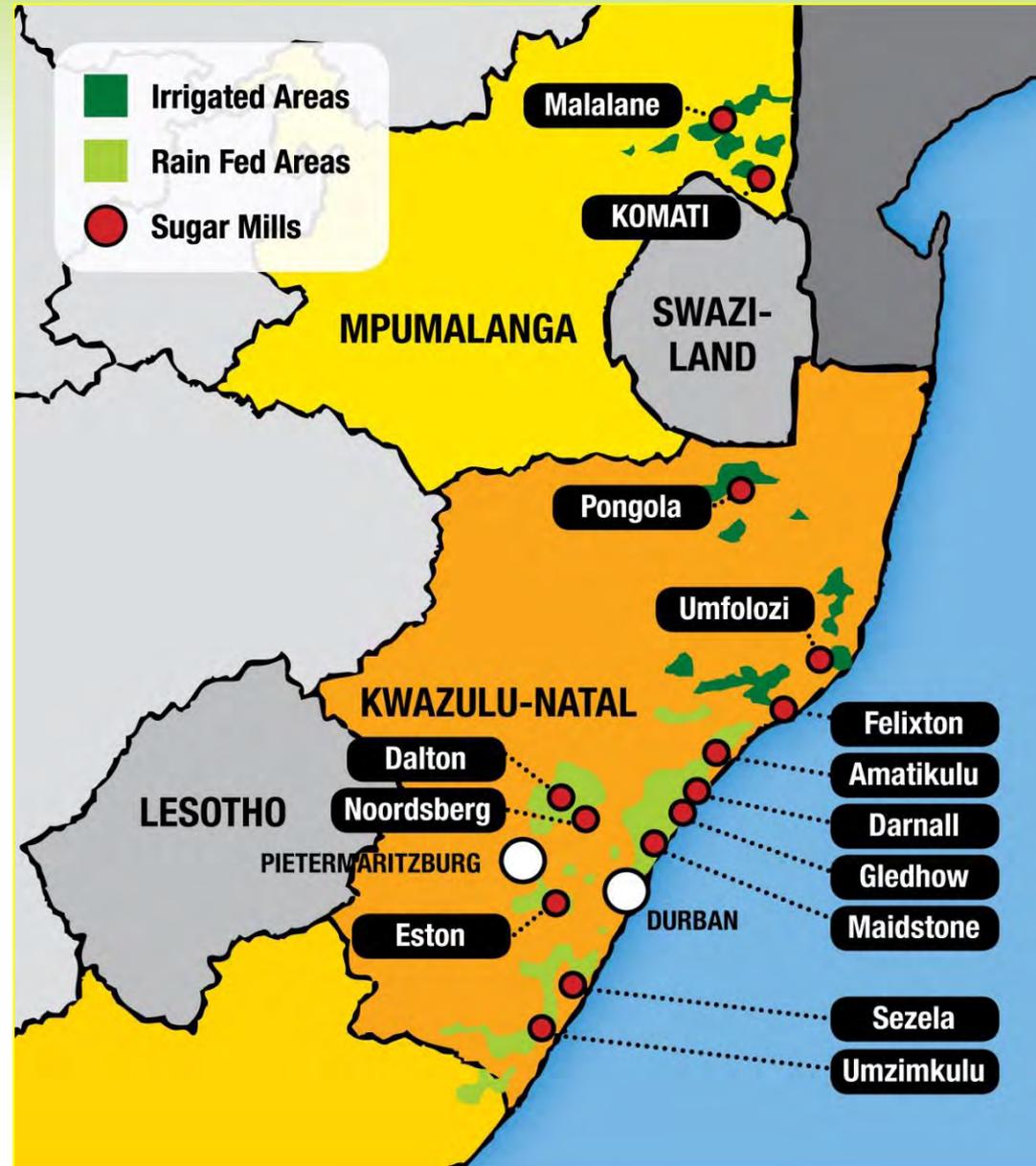
SASA POSITION ON THE NEW SUGAR TARIFF

Presentation to the PPC on Trade and Industry

10 October 2018



SOUTH AFRICAN SUGAR INDUSTRY



- Irrigated Areas
- Rain Fed Areas
- Sugar Mills

Key Industry Variables	
Number of sugarcane farmers	22 500
Area under Cane	365 000
No of Sugar Mills	14
Direct jobs	85 000
Indirect jobs	350 000
Contribution to GDP	R16 billion

- 1 000 hectares = 133 permanent + 210 seasonal jobs
- Since 2013/2014, 5 831 jobs have been lost



The need for protection

- World sugar market is highly distorted
 - World Price is a dumped price
 - It has no relation to the cost of production
- Extensive government support and subsidies
 - In the form of direct support, export schemes, diversification
- All sugar producing countries protect their local industries
 - Mozambique has a DBRP of \$932 for refined sugar
 - Import licensing in many other African sugar industries



Level of protection requested

Dollar Based Reference Price (DBRP) mechanism



- **SASA requested a DBRP of \$856**
 - Basis cost of SA'n sugar production
 - Return on investment
 - Policy cost – cost of exporting surplus production
 - Taking into account ITAC's recent inclusion of the REER adj. to the R/\$ exchange rate
- **ITAC granted a DBRP of \$680**
 - 6 year av. of distorted World Price
 - Application of a distortion factor
 - Continued application of REER in the import duty formula

The DBRP and the import duty calculation

		ITAC ruling		What we asked for
DBRP	\$/ton	680	680	856
World Price	\$/ton	345	345	345
Differential	\$/ton	335	335	511
R/\$ exchange rate	R/\$	14.70	14.70	14.70
REER		0.8571	no REER	0.8571
Calculated Duty	R/ton	4 221	4 925	6 439
WTO bound rate	R/ton	5 325	5 325	5 325
Applicable Duty	R/ton	4 221	4 925	5 325
Impact of REER	R/ton	-704		

R704/ton
a 15%
discount for
importers

Industry position on the outcome of the sugar tariff review by ITAC

- SASA's analysis of the sugar tariff review and outcome:
 - The objective of providing sustainable support to the local industry has not been achieved
 - The new import duty will be ineffective in protecting the industry over the next 3 years – a shrinkage of the industry is most likely
 - The sustainability of the sugar industry remains in the balance
 - There is an urgent need to review the basis on which protection from world sugar imports is afforded to the local industry



Impact of ITAC's revised import duty for sugar

In the next 12 months:

- Some measure of relief to loss-making operations for some farmers and millers
- Majority of sugarcane farmers and millers will remain under significant financial pressure
- Reduced investments on farms and mills
- All 14 mills likely to remain under-utilised

In the 3 years' time:

- Area under cane likely to reduce by 40 000 ha
- More than 5 000 black small-scale farmers likely to exit the industry
- Sugar production likely to decrease by 240 000 tons
- Very likely closure of 1 or 2 sugar mills – reduction in exposure to export market
- Job losses could be 9 500 direct and 39 000 indirect jobs



Independent analysis by the Bureau for Food and Agricultural Policy (BFAP)

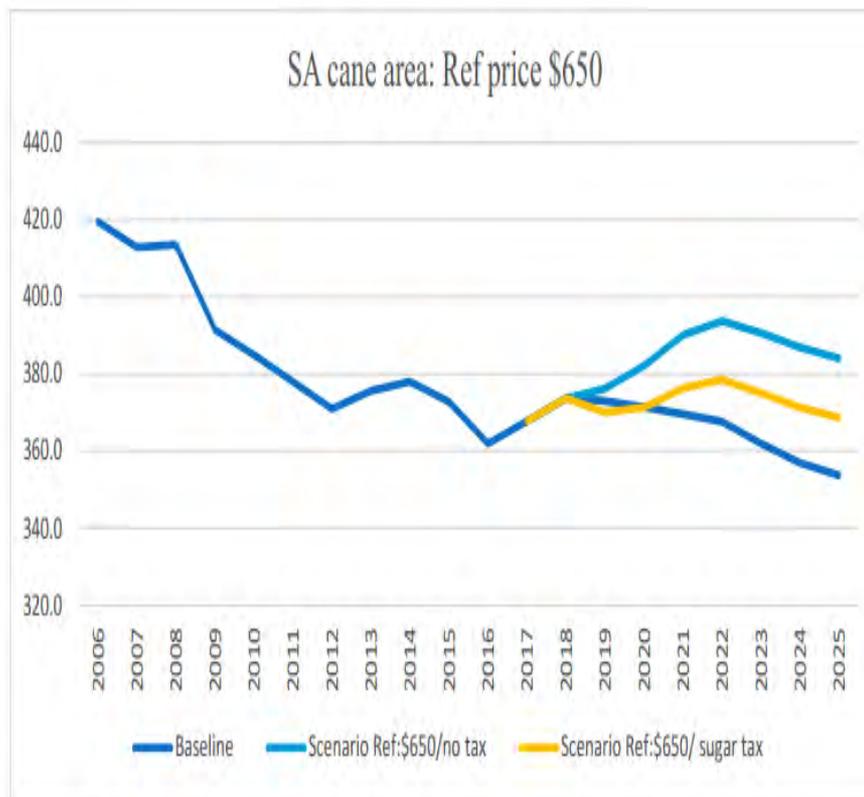


Figure 1: Reference price set at \$650/ton

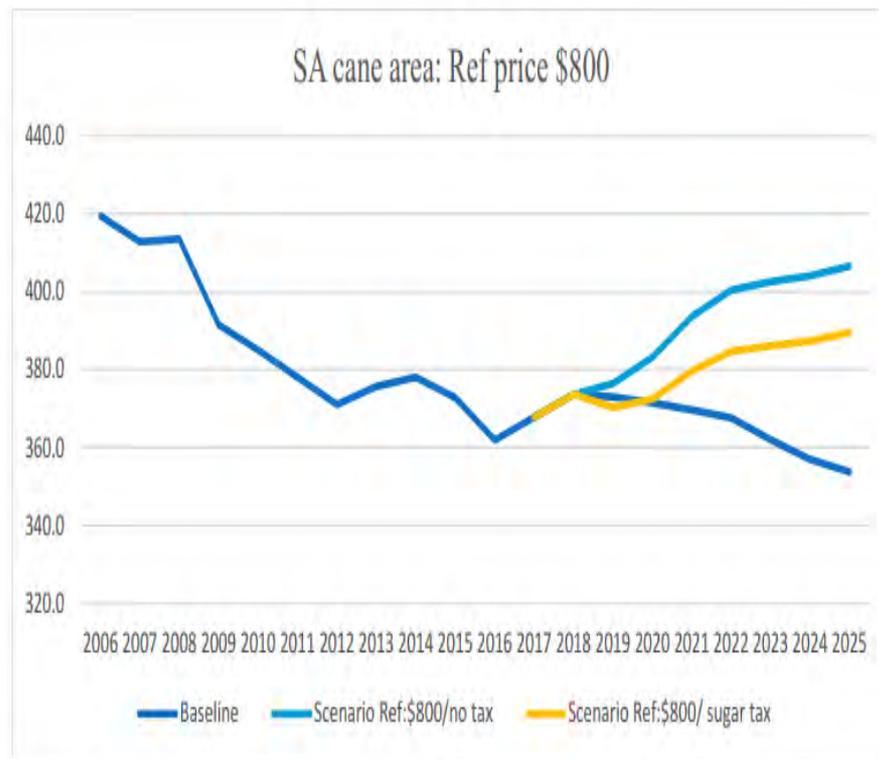


Figure 3: Reference price set at \$800/ton

SA Sugar Industry is globally competitive

- Industry appreciates the difficult balancing act ITAC has to undertake
 - Protecting the sugar industry
 - Protecting the downstream users and consumer
- South African sugar industry remains globally competitive
 - Under normal weather conditions - ranks in the top 15 of the lowest cost producers out of 135 sugar industries world wide
- Industry is a significant socio-economic contributor to our economy



Concluding remarks

- Current protection methodology may be flawed
 - Based on historic distorted world sugar pricing
 - Application of a subjective distortion factor
 - Discounting of the import duty – by application of the REER
- There is a need to review the basis for the protection of the sugar industry
- Industry to engage with key stakeholders to find a way forward
- Short-term solutions that would sustain the industry in the next 3 years
 - Remove the REER from the import duty formula
 - Explore other protection measures applicable to dumped imports