SOUTH AFRICAN SUGAR ASSOCIATION

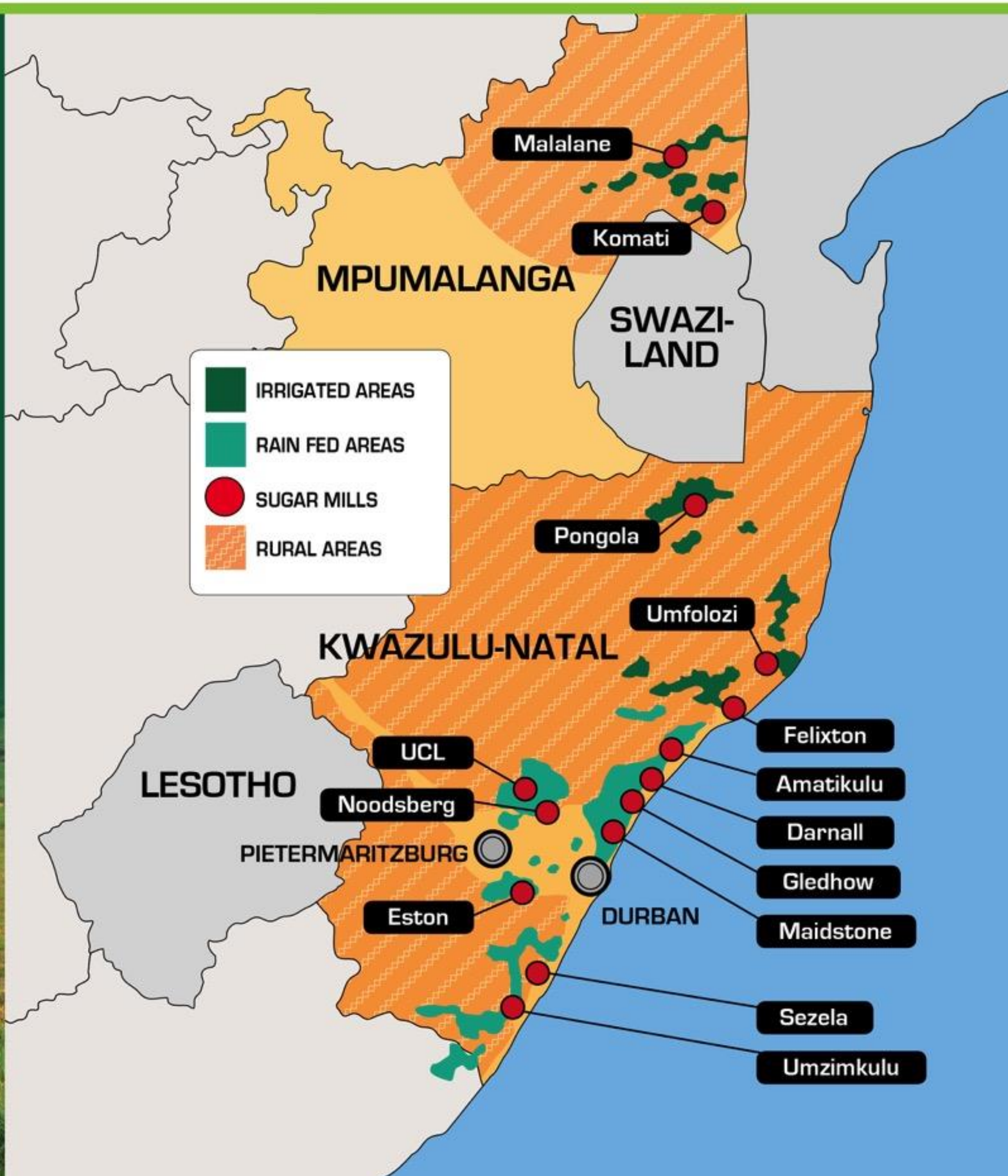
Submission to the International Trade Administration Commission

ESSENTIAL INTERVENTION FOR A RURAL INDUSTRY

The South African sugar industry is in a state of rapid decline.

While a multi-year drought and the implementation of the Health Promotions Levy have presented significant challenges, the persistent flood of duty-paid imports will, if not urgently stopped, destroy the industry.

Entire towns are vulnerable to collapse: Port Shepstone, Kwadukuza, Mtubatuba, Tongaat, Pongola, Gingindlovu, Dalton.



INDUSTRY IN A STATE OF RAPID DECLINE

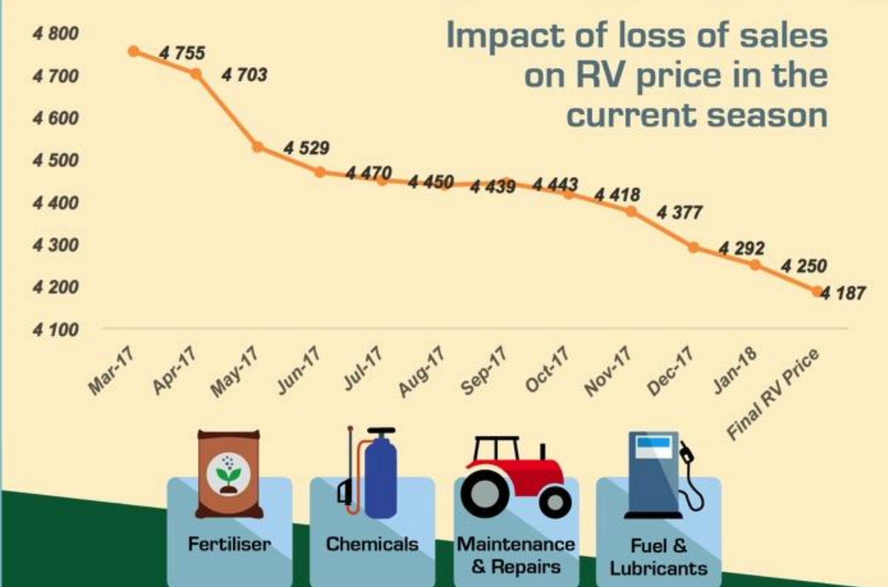
DESPERATE FARMERS BUCKLE UNDER A SURGE OF SUGAR IMPORTS

NORMAL SUPPLY OF SUGAR TO LOCAL MARKET IS 1.65 million tons

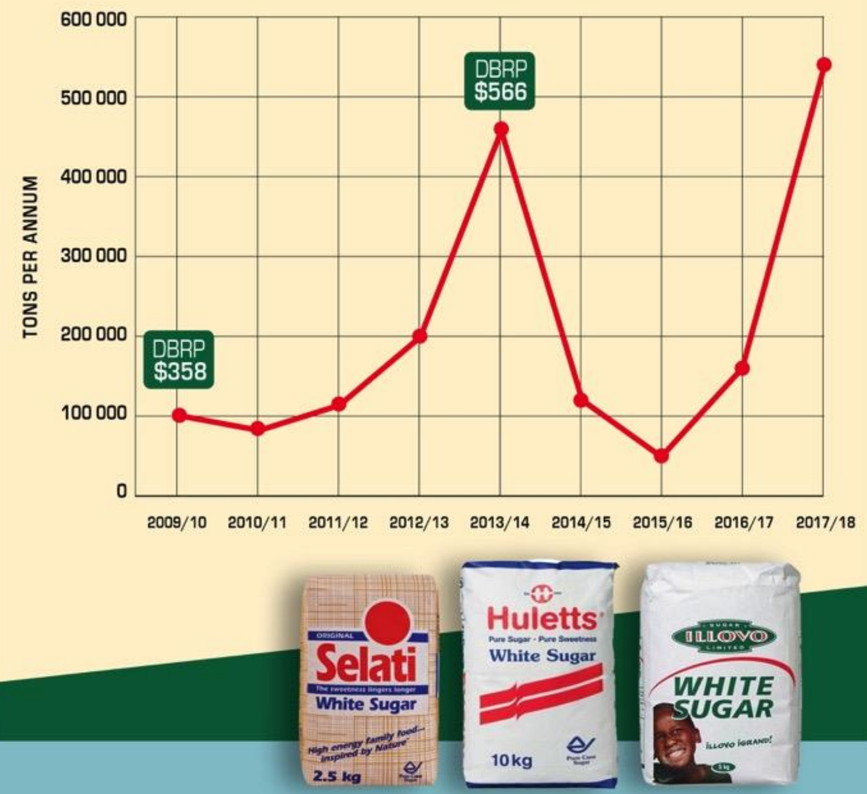
2017/2018 SEASON BELOW ↓ 1.2 million tons

Import volumes of 500 000 tons in 2017 alone are equivalent to production of 3 mills

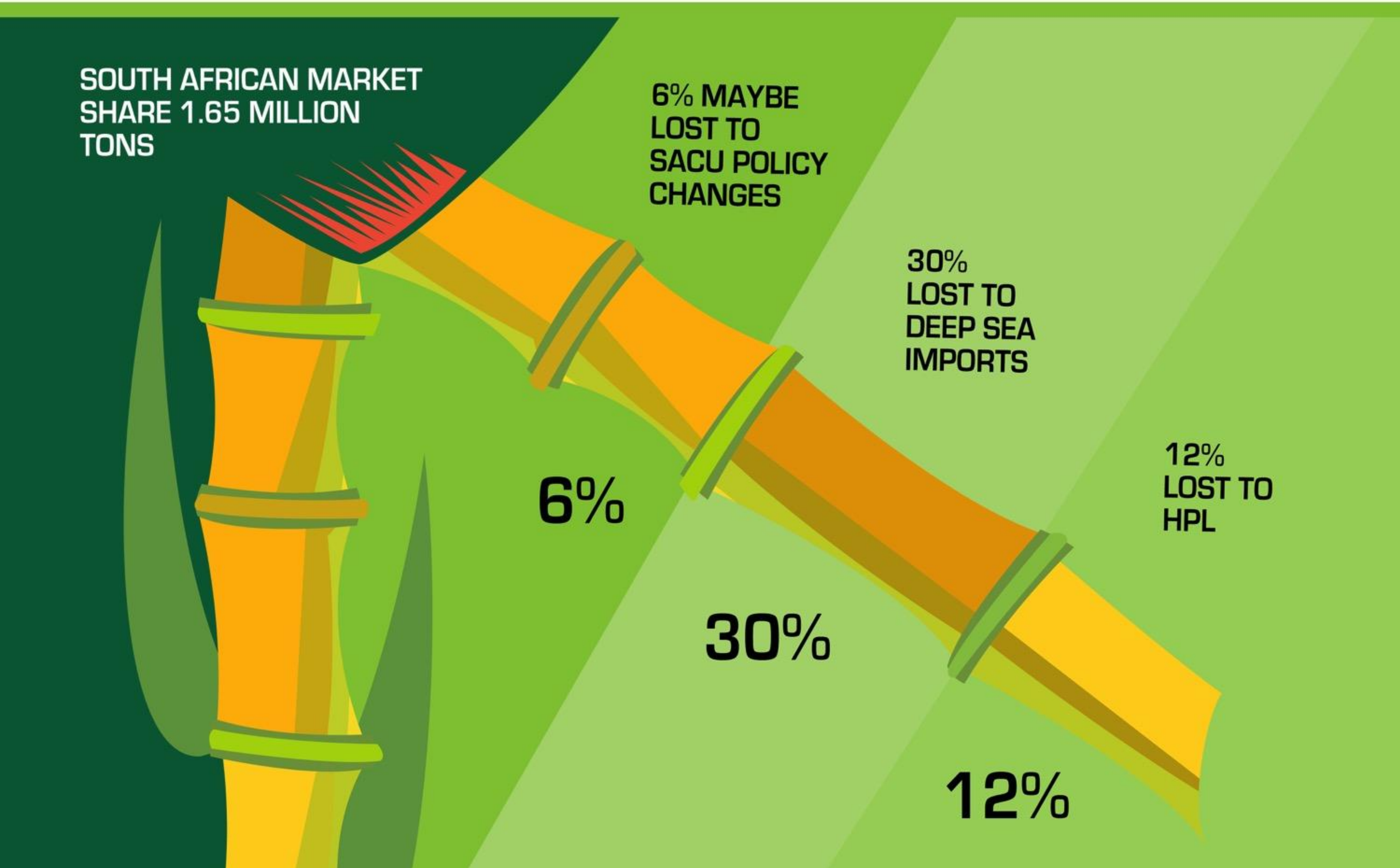
FARMERS PROCEEDS IN RAPID DECLINE



FARMERS INPUT COSTS SURGE



SUGAR INDUSTRY AT A TIPPING POINT

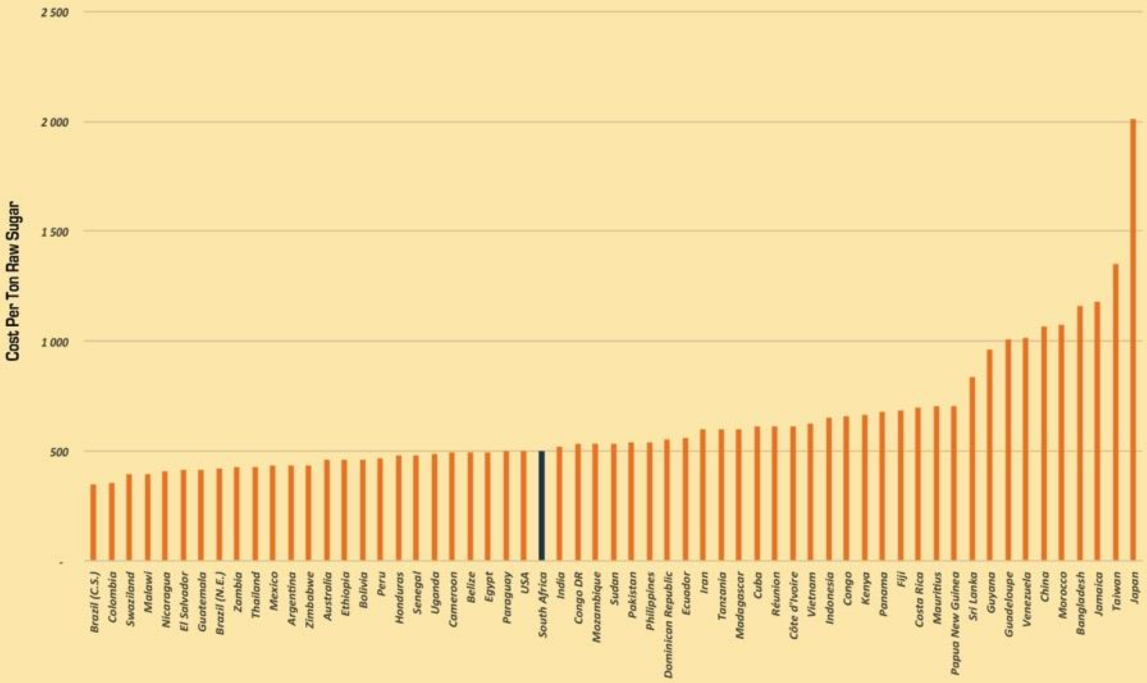


COMPETITIVENESS OF THE SOUTH AFRICAN SUGAR INDUSTRY

Competitive Factors

Agro climatic conditions
Terrain
Soil type
Irrigation versus dryland
Mechanical versus labour intensive

South Africa considered to be at the forefront of technological advancement in cane production and sugar milling



Source: LMC International, 2012/13 – 2015/16

CHANGE IN METHODOLOGY REQUIRED

The current formula fails local producers

The Current Formula is not working

Pricing Factors	Current DBRP ($)	Revised Using Formula ($)
4-year Average No 5 **Price**	558	430
Distortion Factor (7%)	39	30
Transportation Costs	(31)	(31)
Total	**566**	**429**

THREE ESSENTIAL ELEMENTS MUST BE INCLUDED:

1. RSA **COST OF PRODUCTION**
2. RETURN ON INVESTMENT
3. POLICY COST

PROTECTION AT **COST OF PRODUCTION**	Application
LMC Costs + Return on Investment ($)	642.92
ZAR/$ Average 2016/2017	14.70
Costs (ZAR)	9 450.92
REER*	0.84
Adjusted ZAR/$	12.37
Real Costs ($)	764.11
Policy Cost of Surplus Removal ($)	92.00
DBRP ($)	**856.11**

POLICY COST

Sugar Industry Agreement (2000) calls for:

- Surplus production to be exported by SASA (cl 181)
- Proceeds of local and export sales to be redistributed (cl 182) such that no miller or grower is entirely subjected to the dumped world export price

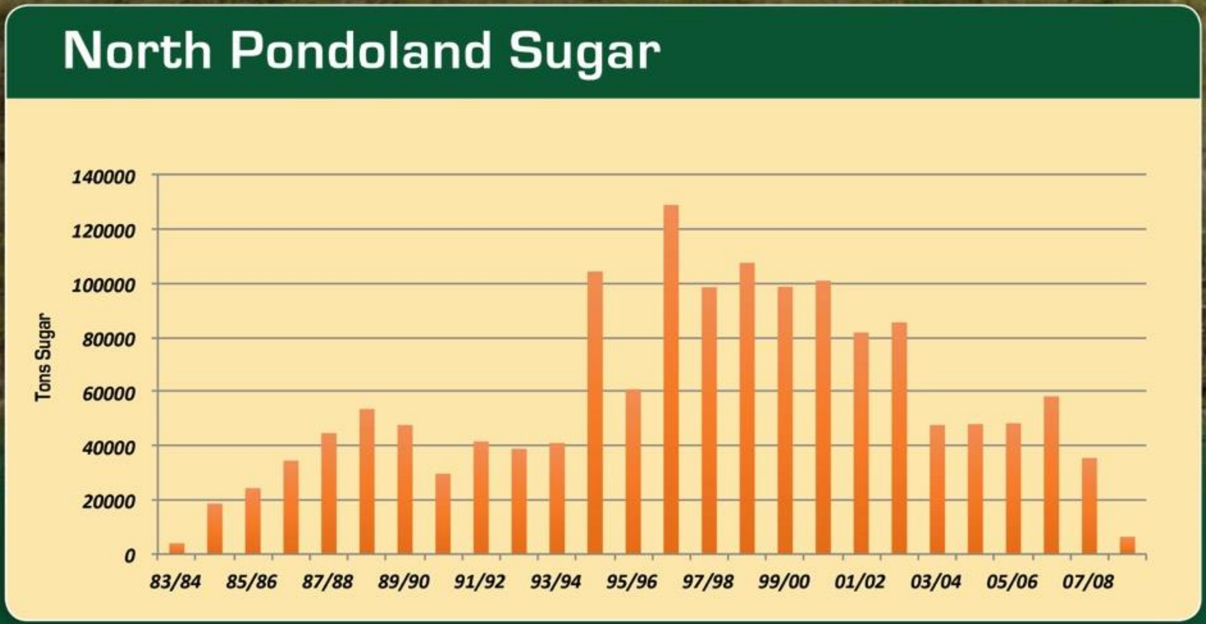
By removing the surplus, and sharing the exposure between all industry players, the objectives of economic value generation in rural areas can be realised

If the industry shrank to the size of the local market only, the socio economic impacts would be significant

	Allowance for Policy cost	No allowance for policy cost
Sugar production (t)	2 200 000	1 650 000
Local market sales (t)	1 650 000	1 650 000
Exports (t)	550 000	-
Total export loss per ton	92	-
Potential loss in sugar production		550 000
Potential loss of cane production		5 500 000
Potential loss of area under cane		100 000
Potential Direct Jobs Lost		34 300

- 100 000 ha of lost production would impact Small Scale Growers first
- Decline in rural agriculture and economy
- Limited scope for alternative crops

POLICY COST ESSENTIAL



WORLD TRADE ORGANISATION BOUND RATE

DIFFERENCE BETWEEN THE DBRP and the APPLIED DUTY

It is the **APPLIED DUTY** (gazetted duty) that is bound by the WTO rate of 105%, NOT THE DOLLAR-BASED REFERENCE PRICE

	SCENARIO 1	SCENARIO 2
DBRP ($)	856	856
No 5 ($)	350	500
DBRP - No 5	506	356
R/$	12,5	12,5
REER	0,92	0,92
Calculated Duty (R)	5 819	4 094
Bounded Duty (R)	4 226	6 038
Applied Duty (R)	4 226	4 094

SUMMARY OF ONGOING FUNDING COMMITMENTS FOR TRANSFORMATION

Land acquired in support of the land reform programme (to date)	R6,1 billion	(76 538 hectares x R80 000 per hectare)
Development grants to in support of SSG and Land Reform Growers (to date)	R535 million	Comprehensive Agricultural Support Programme (DAFF) and Recapitalisation and Development Programme (DRDLR)
Jobs funds (to date)	R267 million	Access by three milling companies for cane development in communal areas (THS, Illovo and RCL/Akwandze)
SASA Initiatives (annual contribution)	R250 million	Supplementary Payment Fund, Short term Transformation Initiatives

RECIPROCITY COMMITMENTS WITH DBRP OF $856

1	Premium Payment to Black Growers Delivering Cane
2	Seed Capital to support Cane Establishment and Expansion of Cane Areas
3	Seed Capital for Land Acquisition to Complement the Land Reform Programme, especially Land Restitution
4	Seed Capital for Value Chain Participation Initiatives in Agro-processing and Downstream Activities
5	Development Finance for Small Scale Black Growers and Land Reform Growers
6	Youth Development and Rural Enterprise Development
7	Other Small Scale Grower and Black Grower Related Subsidies

R1 Billion over three years

POTENTIAL IMPACT

	Current	Potential Short term	Potential Long term
Dependent Rural Livelihood	1 million	1.35 million	1.45 million
Direct job	85 000	100 000	110 000
Indirect Employment	350 000	410 000	440 000
Total Proceeds	R14 billion	> R19 billion	> R21 billion
Land transferred to Black Growers	76 538 ha	150 870 ha	165 000 ha
Gross Domestic Product	0.40%	0.60%	0.70%
Average Annual Cane Production	17 million tons	20 million tons	22 million tons
Total Cane Farmer Proceeds	R9 billion	R12 billion	R13 billion
Area Under Cane	365 000 ha	420 000 ha	440 000 ha

With policy support for diversification into ethanol and co-generation, the impact would be even greater

THANK YOU