SADC-EU ECONOMIC PARTNERSHIP AGREEMENT OPPORTUNITIES FOR THE SUGAR INDUSTRY
ABOUT THIS PAPER

This paper identifies opportunities created by the SADC-EU Economic Partnership Agreement (EPA) for the sugar industry. It provides an overview of the sectors in South Africa, Swaziland and Mozambique. It looks at trends in the European Union sugar market and the improved market access for South Africa under the Agreement, and highlights potential areas of growth such as bioethanol production.

SADC-EU EPA OUTREACH SOUTH AFRICA


The SADC-EU EPA Outreach South Africa initiative supports the implementation of the agreement in South Africa by providing information on its potential benefits. It comprises the Delegation of the EU to South Africa, the Department of Trade and Industry, the Department of Agriculture, Forestry and Fisheries, and the South African Revenue Service. It is funded by the European Union.

DISCLAIMER

The views expressed in this paper do not necessarily reflect those of the various partners of the SADC-EU EPA Outreach South Africa initiative.

FIND OUT MORE

Full text of agreement:
http://www.thedti.gov.za/trade_investment/trade.jsp

The EU is the world’s largest single market and the Export Helpdesk is your online portal:
http://exporthelp.europa.eu

Website:
https://sadc-epa-outreach.com/

CONTACT US

South Africa
ero_ited@thedti.gov.za

European Union
Delegation-S-Africa@eeas.europa.eu
@EUinSA

Published: February 2018
CONTENTS
INTRODUCTION ................................................................. 4
EUROPEAN UNION SUGAR MARKET ..................................... 5
OPPORTUNITIES FOR SADC-EU EPA COUNTRIES ....................... 5
South Africa ........................................................................ 5
Swaziland .......................................................................... 7
Mozambique ....................................................................... 7
TRADE TRENDS ................................................................. 8
IMPROVED MARKET ACCESS FOR SOUTH AFRICA .................... 10
Opportunity for bioethanol .................................................... 11
CONCLUSION ..................................................................... 12
REFERENCES ...................................................................... 12

ABBREVIATIONS
ACP African, Caribbean and Pacific (countries)
CAP Common Agricultural Policy
DAFF Department of Agriculture, Forestry and Fisheries
dti (the) Department of Trade and Industry
EU European Union
EPA Economic Partnership Agreement
FTA Free Trade Agreement
FQD Fuel Quality directive
GDP Gross Domestic Product
ILUC Indirect Land Use Change
ISCC International Sustainability and Carbon Certification
LDC Least Developed Countries
MFN Most Favoured Nation
RED Renewable Energy Directive
RSB Roundtable on Sustainable Biomaterials
SADC Southern African Development Community
SASA South African Sugar Association
TDCA Trade, Development and Cooperation Agreement
TRQs Tariff-Rate Quotas
UN United Nations
WTO World Trade Organization
WWF World Wildlife Fund
INTRODUCTION

Sugar production tends to be labour intensive and has the potential to create employment, particularly in rural areas. Through its multiplier effects, the sugar industry can also contribute meaningfully to economic growth and transformation. Furthermore, the sugar industry creates linkages with other related industries, creating further opportunities for manufacturing expansion – the notion of the adjacent possibility.

Under the Economic Partnership Agreement sugar products from SADC EPA countries, except South Africa, are guaranteed duty free and quota free EU market access. Because of its economic status and sophisticated sugar industry, South Africa has been granted duty free access only for specific quotas (100 000 tonnes of cane sugar for refining and 50 000 tonnes of refined sugar or cane sugar for refining per annum).

In the SADC EPA Group, Mozambique, South Africa and Swaziland have the climatic requirements and the proven capacity to produce sugar. Botswana and Namibia do not have sufficient rainfall (1100-1500 mm) to support sugar cane production, and Lesotho does not meet the temperature requirement for sugar.

EUROPEAN UNION SUGAR MARKET

The EU sugar sector benefited from the Common Agricultural Policy (CAP) established in 1968. The policy regulated all facets of the sugar industry. EU producers were assured of guaranteed prices but had to produce within the prescribed production quotas. Producers also had a captive, lucrative market set up by import barriers to the EU. The policy also made provision for the disbursement of export subsidies. These factors contributed to the EU attaining the status of the world’s second largest sugar exporter.

The EU undertook an extensive reform in 2006 that substantially reshaped its sugar market, after a World Trade Organization (WTO) panel found EU sugar policy not compliant with international trade rules. In the few years that followed, the EU became a net sugar importer. The last production quota for sugar came to an end on 30 September 2017, marking a conclusion to the substantial reforms that saw the thorough restructuring of the industry. EU sugar producers continue to have access to some support mechanisms under CAP, including protection measures against any unexpected disturbances in the market.

Although some forecasts seem to depict a declining per capita consumption of sugar, the EU market still presents an opportunity for the SADC EPA countries to exploit under the new trade Agreement. The decline in sugar consumption, according to Polet (2017), is being spurred by EU consumers seeking healthier life styles and food processors reformulating their products to meet their customers’ changing preferences. Some EU member states are also mulling the introduction of a tax on products containing sugar.
Opportunities for SADC-EU EPA Countries

African countries are consistently ranked among the lowest-cost sugarcane producers in the world (after Brazil and on par with Australia).

Southern Africa has advantages in sugarcane production that make the region one of three or four low-cost production centres in the world. Parts of South Africa, Swaziland and Mozambique possess the optimal conditions to produce sugarcane, (good soils; irrigation infrastructure; wet, hot summers for plant growth; and cool, sunny, dry winters for conversion to sucrose). These Southern African countries also have a ready supply of labour.

South Africa and Swaziland are competitive producers of cane sugar. Mozambique possesses potential, although considerable investment is needed to develop the industry.

South Africa

South Africa has a sophisticated sugar industry that produces 2.2 million tons of sugar per season. The sugar producing areas are made up of irrigated farms, found in the more northern areas of KwaZulu-Natal and Limpopo, and the dry land farms in the rest of KwaZulu-Natal. As Figure 1 on page 6 illustrates, South Africa’s sugar cane production has been on a downward trend, as is the area harvested.

This is due to a range of factors, including the impact of drought and erratic weather conditions, a reduction in the number of small-scale growers involved in the sector, shifts in investment patterns in the region and response to changing consumption trends. The South African industry combines agricultural activities of sugarcane cultivation with the value-added manufacturing that includes raw and refined sugar, syrups, specialised sugars and a range of by-products.

The South African Sugar Association (SASA, 2017) reports that the cane growing sector comprises approximately 22,500 registered sugarcane growers operating in KwaZulu-Natal, Mpumalanga and some farming operations in the Eastern Cape.

South Africa has six sugar milling companies and these companies own a combined total of 14 sugar mills in the Kwa-Zulu Natal Province (12 Mills) and Mpumalanga Province (2 Mills): Illovo Sugar Ltd (five mills), Tongaat Hulett Sugar Ltd (four mills) TSB Sugar RSA Ltd (two mills), UCL Company Ltd (one mill), Umvoti Transport Ltd (Pty) (one mill) and Ushukela Milling Ltd (Pty) (one mill).

The sugar industry in South Africa accounts for almost 140,000 jobs (11% total agricultural work force) and contributes immensely to the country’s transformation and potentially sustainable environmental efforts. According to the South African Sugar Association, the industry generates an annual estimated average direct income of R8 billion. More than 2% of South Africa’s population is said to depend on the sugar industry for a living.
Sugarcane is grown by an estimated 23,866 independent sugar cane growers (as at January 2018). Most of these are small-scale farmers, many based on communal land. They are represented either by the South African Cane Growers’ Association or the recently established South African Farmers Development Association under the umbrella of the Cane Farmers Federation, which in turn works hand in hand with the South African Sugar Millers’ Association in a unique regulatory structure for the industry that is overseen by SASA. SASA is a private sector body that ensures compliance with legislation governing the industry as well as providing other services, including research, testing and marketing.

The industry in South Africa accounts for almost 140,000 jobs (11% total agricultural work force) and contributes immensely to the country’s transformation and potentially sustainable environmental efforts. According to SASA, the industry generates an annual estimated average direct income of R8 billion*. More than 2% of South Africa’s population is said to depend on the sugar industry for a living.

South Africa’s sugar industry has a strong stated commitment to economic transformation. This has included support programmes for land reform that have resulted in the transfer of 21% of freehold land under sugarcane production from white growers to black growers**. There has also been some signs of increased black ownership of milling and manufacturing operations in the sugar sector, although these shifts have not been without their challenges.

The sugar sector is working closely with World Wildlife Fund (WWF) to introduce internationally accepted standards, such as Bonsucro, into the sector. SASA developed a local standard called SUSFarms, which introduces principles of sustainability and an appropriate protocol for improved agricultural practices. There has been uptake of both standards by sugar cane farmers in the Noodsberg area.

South African sugar is exported to the rest of the Southern African Customs Union as well as markets in EU, other parts of Africa, Asia and the Middle East. Figure 1 (South Africa) shows sugar production trends (area harvested and tonnage produced) as well as the mass of sugar exports out of South Africa.

Both South Africa and Swaziland benefitted from government support in the earlier years of establishing industrial capacity. This is consistent with all major sugar producers across the world. South Africa and Swaziland had the right mix of initial government support plus a suitable enabling environment that culminated in competitive operating costs. There is no longer government support for the sector in Swaziland.

Swaziland

In Swaziland, the sugar industry contributes about 60% of the country’s agricultural output, and provides a minimum 10% to the national Gross Domestic Product (GDP). It is well understood that the sugar sector is a substantial contributor to Swaziland’s workforce – employing 16% of the available labour. Swaziland has three sugar mills that have a combined production capacity of 800 000 million tons. These are the Mhlume, Simunye and Ubombo sugar mills.

South Africa’s three biggest sugar companies, Illovo Sugar Ltd, Tongaat Hulett Sugar Ltd, and RCL Foods are also key players in the Swaziland sugar industry through their co-ownerships in production estates and mills. The Royal Swaziland Sugar Corporation is the largest firm in the Swazi sector, with about half of the cane production and 60%-70% of the market.

It is crucial to note that both South Africa and Swaziland benefitted from government support in the earlier years of establishing industrial capacity. This is consistent with all major sugar producers across the world. South Africa and Swaziland had the right mix of initial government support plus a suitable enabling environment that culminated in competitive operating costs. There is no longer government support for the sector in Swaziland.

The sector takes advantage of the high yields per hectare that provides it with a competitive edge. For example, there is a 10%-15% differential with South Africa where the yields are less.

Over the past five years the average cost of a tonne of raw sugar equivalent in Swaziland has been in the range of US$194 to US$204.

The total cost of production is US$407, including production of sugar cane, milling, getting sugar to port and marketing. This compares to Brazil, where a tonne of raw sugar equivalent costs US$320 to US$350. Swaziland has seen increasing costs in recent years, including for electricity used at the mills.

Mozambique

Mozambique has a history of sugar production that stretches as far back as the colonial era. It was built on preferential market access to Portugal. The climatic conditions as well as the soil characteristics are key factors in Mozambique’s comparative advantage in sugar production. The period of civil unrest saw the capacity of the Mozambique industry decline.

After the end of the civil war in 1992, the Mozambican government sought to rehabilitate and modernise the sugar industry. As a direct consequence of that, the area under sugar increased from about 4 000 ha in 1992 to more than 45 000 hectares in 2013, while sugarcane milling increased from 151 000 tonnes in 1992 to 3.4 million tonnes in 2013 as shown in Figure 1 on page 6.
TRADE TRENDS

Since the reform of the EU sugar market, the value of sugar imports into the EU consistently exceeded exports as shown in Figure 2. (In this paper, sugar refers to Heading 1701: cane or beet sugar and chemically pure sucrose, in solid form.) Over the period 2005-2016, the value of sugar imports ranged between US$1.42 billion and nearly US$3.24 billion.

Over the past five years (2012-2016), the EU’s top five sugar importing countries were Italy, United Kingdom, Spain, Germany and Belgium. These five countries on average imported 56.9% of total imported sugar. In the period 2005-2016 EU’s imports were driven by the cane or beet sugar imports (HS 1701) that (on average) commanded 60% of the share of the value of imports. At the time of developing this paper, the UK, which imports on average 12.4% of the total sugar into the EU, had started negotiations to leave the EU. It is assumed that the UK government will roll-over existing trade arrangements to provide continuity and predictability following its departure, including with the SADC EPA countries.

Imports are mainly in the form of cane sugar for refining, from the African, Caribbean and Pacific (ACP) countries and Least Developed Countries (LDC) that benefit from quota-free, duty-free access to the EU market. Brazil, over the period 2005-2015, has supplied the largest share (see Table on page 9) of sugar imports into the EU. Figure 3 illustrates the EU’s sugar import trends from the three top import destinations as well as the total from all countries. This shows that there is a declining trend in the imports of sugar into the EU since 2011.

Source: UN Comtrade, 2018

Source: UN Comtrade, 2017
Swaziland and Mozambique are the only SADC-EU EPA countries ranked in the top ten import sources for the EU over the same period, with a share of 6.9% and 4% respectively of the EU’s total imports of sugar.

South Africa has the least exports to the EU over the period with the value of sugar exports at less than 1% of the EU’s total sugar imports.

The SADC EPA countries contribute towards 11.03% of the EU’s total imports of sugar.

At the time of developing this report, Brazil was negotiating a Free Trade Agreement (FTA) with the EU as part of the South American Mercosur group. At present Brazil’s trade in these products takes place under tariff-rate quotas (TRQs), with an in-quota tariff of €98 per tonne. Within the current framework of the negotiations, the EU has offered increased access for Mercosur agricultural products (including sugar) under a larger set of TRQs.

In the period before the proposed EU-Mercosur Free Trade Agreement enters into force, SADC-EPA countries have an opportunity to maximise their exports to the EU market, and take advantage of the preferential access they enjoy over other cane producing countries, such as Brazil.
**SUGAR TARIFF RATE QUOTAS FOR SOUTH AFRICA**

<table>
<thead>
<tr>
<th>Product</th>
<th>HS Codes</th>
<th>EU applied MFN rates</th>
<th>Quota under EPA</th>
<th>Duty under EPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>17011310 (Raw)</td>
<td>33.9 EUR/100 kg</td>
<td>100 000 metric tons</td>
<td>Free</td>
</tr>
<tr>
<td></td>
<td>17011410 (Raw)</td>
<td>33.9 EUR/100 kg</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17019910 (Refined)</td>
<td>41.9 EUR/100 kg</td>
<td>Maximum of 50 000 metric tons (mt not used can be used for raw sugar)</td>
<td>Free</td>
</tr>
</tbody>
</table>

**IMPROVED MARKET ACCESS FOR SOUTH AFRICA**

Under the SADC-EU EPA, South Africa was granted duty free Tariff Rate Quotas for sugar products that were an improvement on the preferential market access available under the Trade, Development and Cooperation Agreement (TDCA). South Africa is now able to export 150 000 metric tonnes a year of sugar duty free to the EU of which a maximum of 50 000 can be refined. There was no TRQ for sugar under the TDCA and exports from South Africa faced a tariff of €33.90/100 kg in the EU for raw sugar and €41.90/100 kg for refined under the previous Agreement.

The quotas under the EPA will be allocated in a way that encourages greater participation in trade with the EU by newcomers. A Preferential Market Access Permit Allocation System is used and it takes into account the following variables: the BBBEE status of applicants, the market share of applicants, quota applied for, number of applicants and the total quota available (Government Gazette, 2016).

It is also important to note that a Most Favoured Nation (MFN) tariff rate of €33.9/100 kg will apply on raw sugar (cane sugar) when the annual quota under the EPA is exhausted before the end of the year. The same will apply on refined sugar for an MFN tariff rate of €41.90/100 kg.

Under both the EU and SADC rules of origin, sugar cane is determined to have originated in South Africa under a wholly obtained rule if it is harvested there.

The EPA makes an exceptional provision for the mixing of sugar cane of different origins in the hold of a ship to save transport costs under Article 17.

Figures for the first full year of implementation of the EPA show South African producers making use of these new export opportunities, and in particular, an excellent uptake by sugar exporters. Following a long period of drought the first consignments of refined and raw sugar entered the EU in the second quarter of 2017, with virtually all of the TRQ used by the end of the year.

Out of the 100 000 tonne quota available for cane sugar for refining to be exported to the EU duty free, South Africa managed to use 99 904.23 tonnes in 2017. From the 50 000 tonne quota for refined sugar or cane sugar for refining, 41 767.93 tonnes were used in 2017. Therefore, out of the total 150 000 tonnes that was available for South Africa to use at a duty free rate in 2017, only 8 327.84 tonnes remained, which was not a viable amount to fit into an additional shipment.

The EU abolition of its system of sugar production quotas means the TRQs negotiated in the EPA by South Africa are particularly valuable, as they allow it to remain competitive vis-à-vis EU producers while giving them an advantage over the bigger producing countries such as Brazil, thus guaranteeing a secure and stable access to the biggest sugar market in the world.
Opportunity for bioethanol

Bioethanol, a by-product of sugar, from South Africa is allowed duty free access into the EU for 80 000 metric tonnes under the EPA. During the first semester of 2017 almost 10 000 metric tonnes had been used.

As a value-adding industry it is a crucial sector for the economic development of the country.

Bioethanol exported from South Africa is required to meet EU requirements under the RED 11 (Renewable Energy Directive) regulations and the Fuel Quality Directive (FQD). These cover sustainability issues and require the biofuel to be produced so that its greenhouse gas emissions are 50% that of fossil fuels.

Indirect land use change (ILUC) impact requirements specify that land used for the production of the biofuel crop has not been cleared of forests and wetlands or areas of previously high carbon stock, nor can land be converted from a high biodiversity value state. There are a number of standards that can demonstrate compliance with these requirements, including Bonsucro, ISCC (International Sustainability and Carbon Certification) and the RSB (Roundtable on Sustainable Biomaterials).

While sugar mills belonging to RCL Foods and Illovo in South Africa, Malawi, Mozambique and Tanzania are working towards Bonsucro certification, thus far no successful certification of bioethanol has taken place. However, RSB has successfully certified biodiesel producers (from oil based plants) in South Africa that are fully compliant with RED 11 for export to the EU.

As a value-adding industry it is a crucial sector for the economic development of the country.
CONCLUSION

Southern Africa’s world class sugar producers are large-scale and capital intensive. A modern sugar factory could easily cost US$100 million. While the minimum costs associated with the development of irrigated cane land is US$10,000/ha. These are by no means small amounts, and it is necessary that investors have the confidence in the presence of lucrative markets if they are to make further, substantial investments in land development, irrigation and processing facilities. The EU SADC EPA provides that assurance.

REFERENCES


