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PERISA Case Study 3 Private Sector

The Southern African Sugar Sector

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The sugar industry has the potential to play a key developmental role in the Southern African Development Community (SADC) region. The SADC bloc accounts for approximately 54% of total African sugar production. Beyond its economic importance and success in the region, the sugar industry ticks many of the boxes of the most difficult development challenges: playing to comparative advantages; diversification (energy and bio-chemicals); benefiting small nations; and employing many workers, including low-skilled workers and those in rural areas.

But like many other agricultural sectors, sugar policy faces diverse, often opposing pressures from various actors. These range from the need for open supply to facilitate food security, a desire to balance the welfare benefits of small farming interests with the efficiency of large corporate millers, and the challenge of operating in a highly distorted international market.

Sugar's importance as one of the largest agricultural sectors in the Southern African region has given rise to a great deal of involvement from a multitude of actors. The private sector is highly organised and extremely diverse, and includes both very large corporate interests and thousands of small farmers. State actors across the region work closely with the private sector, in an effort to assure a supply of this basic commodity and to protect a sensitive and very important part of their economy. Government and private interests often overlap, as many states hold key interests in sugar producing firms. At a regional level, this multitude of actors and competing interests make use of a range of forums for co-operation, some mandated by the SADC Sugar Cooperation Agreement and others privately organised.

A political-economy approach therefore has much to offer an analysis of the sector, which sits at the crossroads of a diverse private sector and a great deal of government involvement. Recent successes and difficulties in co-operation offer lessons on both the nature of South African regional co-operation, and on the management of emerging agricultural sectors.

Sugar is one of the most heavily subsidised products in the world. Globally, sugar producers on average receive income of almost double the world price of sugar. The average price of sugar on the world market is consistently below the average cost of production of this sugar. Policymaking in so distorted a market runs the risk of falling into the trap of a race towards ever-increasing subsidisation and protectionism. With so few countries committing to free, unprotected trade in sugar, there are very low incentives for newer free trade agreements (FTAs) to work towards an open market for the product.

Sugar imports into the Southern African Customs Union (SACU) member states face a tariff that only comes into effect when the long-term average world price of sugar drops below a given dollar-based reference price. This means that since 2009 sugar tariffs have not been levied against imports, in large part because of sustained increases in the global price of sugar as a result of weather, rising developing country middle class demand and partly increasing demand for cane for ethanol production. In 2008 both the South African Sugar Association (SASA) and the Swaziland Sugar Association (SSA) lobbied the International Trade Administration Commission (ITAC) for an increase in the tariff-activating reference price, from $330/tonne to $400/tonne and $420/tonne respectively. ITAC did recommend a revision of the reference price, but only to a level of $358/tonne, which did not activate tariff protection in the years that followed.

THE SUGAR INDUSTRY IN SADC

At the time the SADC Protocol on Trade came into effect, on 25 January 2000, tariff protections were active and sugar in the region was highly protected. Sugar exporters' access to the SACU market was restricted by a tariff of 19.2 US cents[1] per kilogram of cane sugar,[2] a restriction that applied to all countries outside SACU. Across the remainder of SADC, higher levels of protection applied across nearly all sugar producer member states. Given these levels of protectionism and concerns about the vulnerability of domestic sugar industries, it is perhaps unsurprising that sugar was recognised as a sensitive product during the trade protocol negotiations.

Despite this, an agreement was reached to attempt to facilitate a more integrated regional market for sugar, in the form of a co-operation agreement, which became Annex VII of the SADC Protocol on Trade, titled 'Concerning Trade in Sugar'. Although the agreement acknowledges the need for regional integration and the loosening of barriers to trade, it argues that the 'highly distorted' world sugar market requires some level of tariff and non-tariff barriers (NTBs) to protect regional producers from dumping and price subsidisation.[3] The response to these distortions proposed in the annex includes some level of protectionism, but is also marked by a high level of co-operation between member states, with the stated aim of improving the competitiveness of the region's sugar producers, in anticipation of a liberalised world market.

The annex is headlined by the offer of partial access to the SACU market for SADC surplus sugar producers. This access does not take the form of complete liberalisation, but rather the setting of import quotas. These quotes are governed by a formula that allocates access based on the size of each country's surplus sugar production, and the level of market growth in SACU. This offers non-SACU surplus producers, such as Malawi, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe, the chance to export some level of duty-free sugar to the region, facilitating the development of more

1 Based on the January 2000 rand–dollar exchange rate using http://www.onanda.com, where 118.9 SA cents = 19.2 US cents.

2 Cassim R, Onyango D & DE van Seventer, *The State of Trade Policy in South Africa*, Trade and Industrial Policy Strategies, 2004, http://www.acp-eu-trade.org/library/files/Cassim-Onyango-Van-Seventer_EN_2002_TIPS_Trade-policy-South-Africa.pdf.

3 SADC, SADC Protocol on Trade: Annex VII Concerning Trade in Sugar. Gaborone: SADC, http://www.tralac.org/files/2011/11/SADC-Trade-protocol-Annex-VII.pdf.

competitive production in these countries and taking some of their sugar off the low-priced, distorted world market.

The management of this formula, and further co-operation in general, takes place through a committee established by Annex VII, the Technical Committee on Sugar (TCS), whose members comprise government and industry representatives. The TCS usually meets three times a year.

Country overview

Of the 15 SADC member states, five – Angola, Botswana, Lesotho, Namibia and Seychelles – are non-producers of sugar, although Angola is restarting production by 2014. A further three – the Democratic Republic of Congo (DRC), Madagascar and Tanzania – produce some sugar, but not enough to meet domestic consumption demands. The remaining seven countries – Malawi, Mauritius, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe – are surplus producers of sugar. Although the general co-operation elements of the sugar agreement for the SADC FTA can be applied to all SADC member states that are participating in the FTA (Angola, the DRC and Seychelles are not yet participating), the quota access into the SACU market only comes into effect for those producing surplus sugar. In its present form it therefore applies to five producers: Malawi, Mauritius, Mozambique, Zambia and Zimbabwe.

The five non-producers of sugar all consume substantial levels, and therefore have an interest in assuring cheap and easy access to global sugar supply lines. Of the five non-producers of sugar, Angola levies a tariff on imports of sugar, of a marginal 2% on raw sugar imports and 10% on refined sugar imports. Three members of this group fall within SACU, guaranteeing easy access to South African and Swazi sugar imports, but placing them behind any potential SACU tariff barriers.

There is a great deal of diversity in the export group. The DRC and Zimbabwe are both high-potential sugar producers, with Zimbabwe being the second-lowest cost producer in the world, but with capacity currently limited in both countries by political circumstances, although Zimbabwe has installed production capacity which remains intact and has started to recover. Swaziland, Malawi and Zambia have all developed large, highly efficient sugar industries – ranked respectively as the third-, fourth- and 11th-lowest cost producers in the world in 2007 – off the back of favourable natural conditions and preferential access to the EU market under the EU's African, Caribbean and Pacific Group of States (ACP) sugar protocol programmes. Mauritius has similarly taken advantage of preferential market access, but remains a relatively uncompetitive, high-cost producer of sugar, and as a result has been making efforts to diversify away from reliance on the sugar sector, which accounts for 25% of its export earnings. Madagascar has a small sector, largely reliant on older mini-mills. South Africa is by far the largest sugar manufacturer in the group, and benefits from good natural conditions, good infrastructure and a highly organised corporate sugar sector with significant research capacity. The combination of factors means South Africa is the 8th-lowest cost producer (Free on Board), and the 18th-largest producer worldwide. (See Figure 1 on page 4.)

Domestic actors

Domestic government actors play a deep and diverse role in the sugar industry, and their involvement broadly takes place on three levels. Firstly, many governments hold direct ownership stakes in various firms. Of the 10 sugar-producing countries in the SADC region, five have partial government ownership of major sugar firms. Secondly, departments concerned with growth, trade and industry often pay particularly close attention to the industry, as sugar is a vital component of many regional economies, ranking in the top-10 largest export items of seven SADC countries. Thirdly, many states are directly involved in the marketing and regulation of the sugar industry, through specialised boards and agencies.

The nature of private-sector actors is generally dependent on the model of production used. In some states, sugar millers source cane and beet from a large network of outgrowers, mostly small farmers, who then claim a portion of the sugar sales proceeds based on a proceeds sharing agreement. In other cases, such as in Swaziland, major producers grow cane themselves on large industrial plantations. And in other cases, such as Zimbabwe, a mixed system is used. Outgrowers are often organised, as a consequence of maintaining their relationship with millers, and have the potential to place significant domestic political pressure on governments.

Table 1: SADC sugar industry (tonnes of sugar), 2010–11

Country	Production	Consumption	Imports	Exports
Angola[a]	0 (2012?)	280 000 estimated	277 000 estimated	0
DRC[a]	70 000	160 000	44 000	0
Madagascar	60 000	145 000	155 000	16 000
Malawi	297 000	171 000	0	107 000
Mauritius	452 000	36 000	21 400	469 000
Mozambique	375 000	202 000	3 000	189 000
South Africa	**1 909 000**	**1 979 000**	**120 000**	**378 000**
Swaziland	582 000	309 000	0	172 000
Tanzania	304 000	480 000	105 000	0
Zambia	383 000	173 000	1 000	246 000
Zimbabwe	350 000	236 000	30 000	114 000

a ISO Stats Bulletin, December 2011, *tel quel*.

Note: Botswana, Namibia, Lesotho and Seychelles are non-producers.
South Africa = 47% of production; 49% of consumption; and 38% of exports.

Source: SASA, 'Agri SA conference presentation', 21 February 2012, http://www.agrisa.co.za/konferensie/Agrisa/Dag02/14h10%20-%20AD%20Presentation,%20Agri%20SA,%20Feb12,%20v.03.pdf.

Nevertheless, the larger millers and marketing agencies arguably play a bigger role at the regional level, and often share concerns with outgrowers, as their interests are linked by the proceeds-sharing agreements. With the exception of the more diverse Madagascar, Mauritius, the DRC and Tanzania, most countries have a relatively concentrated sugar industry, with one, two or three major sugar producers. Although a range of companies operate across the 10 countries, two major South African firms – Illovo and Tongaat Hulett – have especially important interests in companies across the region. Illovo's interests include a majority of Swaziland's Umbombo, a majority of Malawi's sole sugar producer, Sucoma, and ownership of the dominant Zambian producer, Zambia Sugar. Tongaat Hullet runs the two biggest producers in Mozambique, and has controlling shares in the two biggest Zimbabwean producers, Triangle and Hippo Valley.

The political economy of the region is therefore characterised by a private sector that is wary of a highly distorted international market, but unified in the region by concentrated common ownership interests. Government actors have a two-fold vested interest in the protection of the sugar industry – through their part ownership of some industries, and the strategic importance of the sugar industry to their economies.

Regional forums

Regional co-operation formally takes place within three forums. The TCS was founded as part of the SADC Sugar Agreement found within the SADC Free Trade Area. The group meets three times a year, and gathers representatives from government and the sugar industry. The committee includes two working groups, a technical working group and a trade policy working group.

SADC sugar producers have their own Sugar Producers Consultative Forum (SPCF). The SPCF meets prior to TCS and working group meetings. The forum's secretary is the international affairs manager at SASA, while the chairman is the chief executive officer of the SSA, a reflection of the two countries' status as the two biggest sugar producers in SADC, and the only two SACU sugar producers.

The Federation of SADC Sugar Producers (FSSP) is the umbrella body for the regional sugar industry. It was formed in 2000, with the purpose of working to promote the common interests of the region's sugar markets, and to identify potential joint projects.

Table 2: Recent policy achievements in SADC regional sugar collaboration

1	On-going implementation of Annex VII itself
2	Drafting of Regional Sugar Strategy, and comprehensive action plan
3	Active regional bio-security co-operation. Drafting of regional bio-security plan
4	New basis for non-SACU SADC member states' access to the SACU sugar market
5	Scanning charges on exports and imports at Maputo Port challenged
6	SADC Best Management Practice Guidelines initiated for sugarcane and sugar production

Source: Presentation by the South African Sugar Association at Agri SA conference, 21 February 2012.

CONCLUSION

The discussion illustrates that the sugar industry in Southern Africa is extensive, making up slightly more than half of the continent's sugar production. The industry is characterised by private–public partnerships in its production chains. Sugar production, furthermore, plays a prominent role in the agricultural economies of the various member states, as it employs large numbers of low-skilled workers. It also employs skilled industrial workers in the mills.

The regional political economy of the sugar industry is poised within a relatively unfavourable global market, characterised by heavy subsidies and a growing trend towards dumping from other parts of the world. This common anti-dumping concern among regional players has helped to cement the relationship across member states. Solidarity is also augmented by the ownership pattern across the region. Most South African companies are actors in the regional sugar production landscape.

A major concern in the emerging sugar landscape is the impending decrease in the value of benefits for most of the major regional players from the EU's preferential trade scheme for ACP countries. The EU is reforming its sugar regime, and the effect will be to decrease the price of sugar in the market. Many of the SADC region's producers are heavily reliant on the EU market as a good value export destination.

What emerges from the study is that Angola and the DRC, which have sizeable markets, still levy a sugar tariff despite their having very small sugar industries to protect. The regional sugar producers would benefit from Angola and the DRC opening their markets to increased sugar imports from fellow regional producers. Member states that have uncompetitive sugar industries also need to find ways to increase efficiency and decrease production costs or they could be forced to downscale their sugar production, in the face of competition from more competitive producers. There is also a case for the region to increase NTBs in order to protect the regional producers from possible dumping by highly subsidised producers from outside the region. It is encouraging that there is already a critical mass of organised sugar producers in the region, in the form of the FSSP. The sugar industry is one of the most united sectors in the private space within the SADC region. This in itself augurs well for mobilising member states towards more beneficial regional agreements on sugar production and marketing and expansion in the sector.

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