agritrade

Special report – September 2013

Regional developments in ACP sugar sectors 2012–2013

Contents

1. Sugar sector developments in Southern and Eastern Africa

Annual sugar production varies across the region in the light of prevailing weather conditions. While a post-drought recovery is under way in South Africa, the strategic relocation of South African sugar companies into neighbouring countries with lower production costs and better tariff treatment on overseas markets continues (see *Agritrade* article 'Short-term recovery, but long-term decline in South African sugar production continues', 13 January 2013). In 2012/13, production and export growth has been greatest in Mozambique and Zimbabwe, with strong export growth in Malawi, but there was a setback in 2011/12 to exports from Zambia, with expectations that this will be reversed in 2012/13 (see *Agritrade* article 'Trends in Southern and Eastern African sugar production and trade', 24 June 2012). New sugar cane production is also coming on stream in Swaziland which, coupled with a post-drought recovery, saw exports in 2011/12 to the EU 21% higher than in 2009/10.

For companies such as Illovo, South Africa is now the sole source of exposure to world market sugar prices. Currently, South Africa is seeking a 300,000 tonne tariff-rate quota (TRQ) under a comprehensive Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the EU, a move which would further reduce exposure to world market price volatility.

In October 2012, the third largest South African sugar company, TSB, announced that it was investing US$740 million (approximately €564 million) in new sugar production in Mozambique. This will add to the expansion of sugar production and exports already under taking place. Between 2010/11 and 2012/13 production is projected to increase by 59% (to 465,000 tonnes) and exports by 132% (to 260,000 tonnes) (see *Agritrade* article 'Mozambican sugar exports to EU surge', 22 July 2012).

In May 2012, Peter Staude, Chief Executive Officer of Tongaat Hulett, highlighted the potential revenue benefits for sugar cane growers of investments in electricity co-generation, noting that Zimbabwe cane farmers were now being paid US$65/tonne (€50/t), compared to the US$45/tonne (€34/t) in South Africa, following a proper valuation of the cane fibre used in electricity co-generation (see *Agritrade* article 'Tongaat CEO highlights income gains from electricity co-generation', 16 July 2012). Extracting the full value from each piece of sugar cane by developing a number of revenue streams is a growing feature of sugar sector development across the region. This is led by regional investments by South African and Mauritian sugar companies.

Among traditional ACP sugar exporters to the EU, revenue diversification is most fully developed in Mauritius, where farmers benefit from increased income from non-traditional revenue streams (see *Agritrade* article 'Getting ahead of policy change: Lessons from the Mauritian sugar experience', 28 January 2013). The issue of farmer participation in the benefits of new revenue streams is likely to become an increasingly important issue across the ACP, with governments increasingly aware of the need to strengthen the functioning of sugar supply chains (see *Agritrade* article 'Kenyan government looking to broaden revenue receipts for sugar farmers', 8 October 2012).

Since 2011, Omnicane has announced a major investment in Kenya, which is expected to shake up the Kenyan sugar sector. In addition, the second largest Mauritian sugar miller, Alteo, is actively seeking strategic partners across Eastern Africa to increase its sugar output (see *Agritrade* article 'Second Mauritian company looking to expand in Eastern Africa', 18 February 2013).

Within the East African Community (EAC), a shortage of cane continues to plague the sugar milling sector in Kenya: there was a 9.25% decline in production in 2011 compared to 2010, and figures show the decline continuing into 2012. It is seen as vital that the production decline and conflicts (cane poaching) in the Kenyan sugar sector be addressed before the lapsing of the Common Market for Eastern and Southern Africa (COMESA) special safeguard provisions for sugar. This is likely to require substantial regulatory reforms.

Currently, the troubled state of the Kenyan sugar sector is giving rise to trade disputes with neighbouring Uganda, and there have been accusations that Ugandan duty-free sugar imports are being diverted to the Kenyan market (see *Agritrade* article 'Regulatory reform critical to future of the Kenyan sugar sector', 18 November 2012). This has led to sugar imports into Kenya from both Uganda and Tanzania, as well as Zambia, being blocked, in violation of EAC and COMESA treaty commitments.

Elsewhere, while Ugandan sugar production was lower than projected, it increased by 11.4% in 2012 from 259,413 tonnes in 2011, and new sugar mills are due to open in 2013 as a part of government efforts to boost sugar production. Record sugar production was also seen in Burundi in 2012, in line with government efforts to stabilise the national sugar market.

In Tanzania, meanwhile, a delayed utilisation of import licences has led to the emergence of a sugar glut, with in excess of 50,000 tonnes of sugar piling up at warehouse sites. As a result, licences have been granted to Illovo-owned Kilombero to export 10,000 tonnes of sugar, probably to the EU, and to the Kagera Sugar Company for the export of 9,500 tonnes, probably to regional markets in Uganda and South Sudan (see *Agritrade* article 'Variable picture in EAC sugar sector with ongoing disputes escalating', 15 April 2013).

Ambitious plans to expand sugar production in Sudan approached realisation with the opening of White Nile Sugar Company's new factory in July 2012. Additional production of 150,000 tonnes of sugar is expected this season (2012/13), with a tripling of production thereafter. Similar ambitious plans in Ethiopia have yet to yield a substantial increase in production and exports.

Overall, the Southern and Eastern African region is playing an increasingly important role in supplying sugar to the EU market, with the region's share of imports from ACP countries growing from 70.2% in 2009/10 to 74.7% in 2011/12. This is increasingly taking place through intra-corporate trading arrangements, given the changing pattern of sugar sector ownership across the region. For example, Illovo is estimated to have a direct stake in almost 23% of ACP sugar exports to the EU.

2. Sugar sector developments in West and Central Africa

Plans to expand sugar production in Central and West Africa continue, in response to higher world market prices, despite the withdrawal of Illovo from Mali (see *Agritrade* article 'Nigeria expands refining capacity as Illovo pulls out of Mali', 9 July 2012).

In August 2012, a joint venture between Cameroon and India was announced, with plans to produce 60,000 tonnes of sugar. This is due to increase current national capacity by 50%, taking Cameroonian sugar production to within 10% of the national consumption needs of 200,000 tonnes per annum. The joint venture is to include a 16-MW electricity generation unit. This initiative followed announcements in March 2012 by the state-managed sugar company Sosucam of a 7-year investment programme to increase sugar production (see *Agritrade* article 'Cameroon looking to expand sugar production', 1 October 2012). This production expansion could see a modification of current trade arrangements, which currently involve the issuing of discretionary sugar import licences to private companies. However, with reports of extensive smuggling of Cameroonian sugar to neighbouring markets, imports may be unaffected.

In March 2012, the Chinese firm Sinolight announced plans to "establish a sugar refinery in Niger, a development which would allow the country to add value to its raw sugar cane production", with an annual capacity of 100,000 tonnes of refined sugar. (See *Agritrade* article 'Chinese company to open sugar refinery in Niger', 31 March 2012).

In September 2012, in response to the Nigerian Federal Government's Agricultural Transformation Policy, the Dangote Sugar Refining Company announced plans to "ensure that Nigeria is self-sufficient in sugar production". In January 2013, the Nigerian government introduced a complete ban on the import of "packaged sugar, granulated and in cubes". In addition, "all importers of brown sugar are mandated to own sugar farms in the country or contract out sugar farming to individual local farmers if they are to continue having licences to import brown sugar for refining" (see *Agritrade* article 'Nigeria intensifies efforts to promote a fully integrated sugar sector', 28 April 2013). With Dangote Sugar in the forefront of efforts to develop linkages from its existing refineries to domestic sugar cane production, its dominant position on the Nigerian sugar market could be enhanced under the newly announced import policy, despite recent increased competition from other sugar refiners.

Currently, Nigeria's tariff structure favours raw sugar imports for local refining. This has encouraged major investments in sugar refining. However, moves towards establishing a common external tariff (CET) at the regional level of 35% for both raw and refined sugar could transform the attractiveness of investment in domestic cane sugar production. This may well be a contributing factor to the decision of Dangote Sugar to expand its own cane growing operations (see *Agritrade* article 'Private sector plans to expand Nigerian sugar cane production', 11 November 2012).

Of wider regional significance, however, was the announcement in December 2012 that Dangote Sugar had commenced exports of sugar to Ghana, Gambia and Sierra Leone, with exports to Senegal and other African markets also being explored. This sugar sector export drive is consistent with growing investment in sugar refining in Nigeria, which exceeds domestic consumption requirements (refining capacity 2.3 tonnes, national consumption approximately 1.4 million tonnes). Markets across West and Central Africa are likely to be targeted, given annual demand growth of between 3 and 4%.

This is likely to create trade conflicts with countries promoting sugar sector development on the basis of domestic sugar cane production, and could lead to issues related to rules of origin for refined sugar products becoming a source of dispute in intra-regional trade negotiations.

At present, two West African countries, Benin and Sierra Leone, export or plan to export sugar to the EU totalling 18,000 tonnes in 2011/12 and a projected 20,000 tonnes in 2012/13.

3. Sugar sector developments in the Caribbean

In September 2012, the government of Barbados announced that it would be withdrawing from production of sugar for export to the EU market, since it had "become uneconomical". In future, sugar production will be focused on national and regional markets, based on processing at an single integrated facility which "will produce specialised and refined sugar as well as refined molasses geared to producing quality rum" (see *Agritrade* article 'Barbados to end sugar exports to the EU', 4 November 2012).

In January 2013, the government announced that discussions were due to take place with the Japanese company Marubeni Corporation, to support the conversion of "the existing sugar sector into a sugar cane and renewable energy industry" (1). The restructured sector would produce "15,000 tonnes of raw sugar, 12,000 tonnes of refined sugar and 24,000 tonnes of molasses" and "170,000 megawatt hours (MWh) of electricity". Funding is being sought in two phases: the first phase is focused on securing the agricultural requirements of the project, and the second on refurbishment and extension of the processing facility (see *Agritrade* article 'Barbados seeks Japanese support for sugar restructuring, while efforts continue elsewhere', 18 March 2013).

The importance of getting basic agricultural production right is illustrated by recent developments in Guyana. In December 2012, the country's agriculture minister was reported in the press acknowledging that a shortened harvest season had in recent years contributed to an underachievement of production targets. This was attributed to changing weather patterns, and was held to require a reorganisation of field-level operations to improve supplies of cane to the mill. This would appear to be essential if planned export targets to the EU are to be met.

The potential role that foreign investment can play in the Caribbean sugar sector is illustrated by developments in Jamaica since 2010. Following losses in 2011, the Chinese-owned Pan Caribbean Sugar Company (PCSC) reported its first annual operating profit for the year to 31 July 2012. This followed reports of major gains in cost reduction. Following the signing of a new marketing agency agreement in May 2012, PCSC is to be allowed to export sugar on its own account (see *Agritrade* article 'New marketing agency agreement signed with PCSC in Jamaica', 18 June 2012). Other Jamaican sugar producers will continue to pool sugar to meet contracted obligations to Tate & Lyle Sugars (T&LS), but in the longer term PCSC has offered to assist other estates in the marketing of their sugar on a commercial basis. For the 2012/13 season, PCSC has "signed a contract with France-based Sucres et Denrees [Sucden]… to supply approximately 40,000 tonnes of raw sugar". This represents a shift in marketing arrangements for Jamaican sugar away from T&LS and more recent arrangements with Eridania. This is despite earlier offers from T&LS to assist with fair-trade certification of Jamaican sugar cane farmers' associations.

These developments highlight the trade implications of foreign investment which can lead to the dismantling of traditional marketing arrangements, and could potentially carry lessons for other ACP sugar sectors with single marketing channel arrangements (e.g. Swaziland).

While PCSC has ambitions to expand its sugar production capacity to 154,000 tonnes, farmer representatives have suggested that the Jamaican sugar sector is "delicately balanced" between success and unfulfilled potential. Average cane yields are currently around only 53 tonnes/ha, well below the 80 t/ha that Jamaica's agriculture minister considers necessary for the long-term financial viability of the sector.

In May 2012, American Sugar Refiners (ASR), the new owners of T&LS, purchased a majority shareholding in Belize Sugar industries (BSI) (see *Agritrade* article 'ASR to take shares in Belize Sugar Industries', 9 July 2012). An important factor behind the acquisition was "the fair-trade component". BSI processes cane from 6,000 independent growers, all of whom are fair-trade-certified (see *Agritrade* article 'Fair-trade component a key factor in BSI acquisition by ASR', 2 December 2012). The agreement between BSI and ASR includes a commitment by ASR to invest US$20 million (approximately €15.25 million) in cane field development and US$40 million (€30.5 million) in factory modernisation. The acquisition can be seen as supportive of T&LS's plans to convert its entire direct consumption sugar range to fair-trade sugar and of T&LS's partnership of October 2012 with the chemicals and food ingredients group IMCD Benelux to supply fair-trade-certified sugar to industrial users across mainland Europe.

In the Dominican Republic, a marginal increase in sugar production and exports is continuing. With a reduced TRQ for the US market for 2013 (down 20,824 tonnes from 2012) (see *Agritrade* article 'Developments in the sugar sector in the Dominican Republic', 11 February 2013), exports of sugar to the EU market are set to recommence (a projected 40,000 tonnes for 2012/13) (20). This will be helped by changes in relative prices on the EU and US sugar markets. As ASR owns the largest sugar exporter in the Dominican Republic (Centro Romano), this could marginally ease some of T&LS's raw sugar supply problems.

Overall, since 2009/10 an uneven recovery in Caribbean exports of sugar to the EU has been under way, with expectations of a stronger and more sustained recovery from 2012/13. However, this is taking place against the background of substantial changes in ownership and marketing arrangements in Jamaica and Belize.

4. Sugar sector developments in the Pacific

In Fiji in 2012/13, efforts continued to rejuvenate the Fijian sugar sector, following a setback of major flooding, which saw exports to the EU fall by 26.3% in 2011/12. In January 2013, the government announced further investment of US$11.3 million (approximately €8.6 million) to support mechanisation of cultivation and harvesting. A cane quality payment scheme has also been introduced for 2013 to encourage delivery of better quality cane to the mills. The government hopes to gradually phase out state assistance to the sugar sector as efficiency improves.

In 2012, the EC prepared an 'action fiche' describing objectives, measures and implementation issues relating to the extension of Sugar Protocol Accompanying Measures support (€10.446 million) to Fiji, to be delivered via the Secretariat of the Pacific Community. While support focuses on social mitigation interventions, through an 'Alternative Livelihood Programme', it also includes a sugar seed cane quality improvement component. The action fiche highlighted the continuing perilous state of the Fijian sugar sector: annual cane payments fluctuate widely (F$61 [€26]/tonnes equivalent [te] of cane in 2009 to F$46[€20]/te in 2010, then back up to F$60/te in 2011). Average cane yields are substantially below financially sustainable levels, in the face of high field-level production and factory processing costs. The EU support complements assistance of €8 million provided under the 2011 Sugar Protocol Accompanying Measures programme, targeted at increasing the performance of the food crops sector. This needs to be seen against the background of the EC view that "the Fijian sugar cane small grower model is no longer a viable model for Fiji…, this traditional farming system should gradually be replaced by larger commercial farming."

In Papua New Guinea (PNG), concerns have been expressed over the impact of government tariff reductions on the sugar sector. Ramu Sugar, PNG's only sugar producer, has reportedly lost 31.5% of its sugar sales since the introduction of the tariff reductions. The effects of the tariff reductions have been compounded by the combined effects of falling world sugar prices, a 30% appreciation of the PNG kina against the US dollar, and rising production costs. Ramu Sugar has called for an import duty of 50% to be levied for the next 5 years to ensure a viable sugar industry in PNG (see *Agritrade* article 'Concerns growing over the future of Papua New Guinea's sugar industry', 21 January 2013).

However, the government of PNG is committed to opening up trade: 2012 saw the removal of more than 400 items from PNG's exclusion list under the Melanesian Spearhead Group Trade Agreement (MSGTA). While the list excluded sugar, sugar tariffs are likely to be relaxed over time, to the benefit of Fiji. This longer-term reality has been implicitly recognised by Ramu Sugar: the company has changed its name from Ramu Sugar Ltd to Ramu Agri-Industries Ltd (RAIL), reflecting its process of diversification into other agriculture-related activities.

Main sources

Southern and Eastern Africa

Illovo Sugar Ltd, 'Integrated annual report for the year ended 31 March 2012', 2013
http://www.illovosugar.co.za/Financial/Annual_Reports/Annual_Report2012.aspx

New Vision, 'Uganda's 2012 sugar production down 11 percent-official', 29 January 2013
http://www.newvision.co.ug/news/639318-uganda-s-2012-sugar-production-down-11-percent-official.html

Times of Zambia, 'Kenya-bound sugar marooned at border', 14 February 2013
http://allafrica.com/stories/201302141100.html

West and Central Africa

Agra-net.com, 'Cameroon to boost refined sugar production', 15 August 2012
http://www.agra-net.com/portal2/home.jsp?template=newsarticle&artid=20017982215&pubid=ag002

This Day, 'Nigeria will be self-sufficient in sugar production', 10 September 2012
http://allafrica.com/stories/201209100137.html

Caribbean

Jamaica Observer, 'Chinese sees sugar profit in year two', 12 December 2012
http://www.jamaicaobserver.com/business/Chinese-sees-sugar-profit-in-year-two

Jamaica Information Service, '$4 billion available to increase sugar cane yield', 10 December 2012
http://www.jis.gov.jm/news/list/32515

Sugaronline.com, 'Dominican Republic: EU sugar exports at 40,000 tonnes in 2012/13', 1 March 2013
http://www.sugaronline.com/news/website_contents/view/1209605

Pacific

Fiji Live/*PACNEWS*, 'Fiji sugar industry to pump in $20 million', 30 January 2013
http://www.pina.com.fj/?p=pacnews&m=read&o=1664711745510880b96657f0aa69cc

EC, 'Annex: Action fiche for the Annual Action Programme 2012 of Accompanying Measures for Sugar Protocol Countries in the Republic of Fiji', undated
http://ec.europa.eu/europeaid/documents/aap/2012/af_aap_2012_fji.pdf

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

Technical Centre for Agricultural and Rural Cooperation (ACP—EU)
PO Box 380
6700 AJ Wageningen
The Netherlands
Tel: +31 (0) 317 467 100
E-mail: cta@cta.int - **www.cta.int**