

Sugar Industry Master Plan - Engagement with the downstream sugar industry on possibilities and challenges to sugar beneficiation (Food and Beverages Sectors)

Portfolio Committee on Trade and Industry

31 August 2022



the dtic

Department
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

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ACRONYMS

AfCFTA	African Continental Free Trade Area
BEVSA	Beverage Association of South Africa
BLN	Botswana, Lesotho, Namibia
CGCSA	Consumer Goods Council of South Africa
DALRRD	Department of Agriculture, Land Reform and Rural Development
DoH / NDoH	Department of Health / National Department of Health
EFTA	European Free Trade Association
est	Estimate
EU	European Union
HPL	Health Promotion Levy (or sugar tax)
HS	Harmonised Standard
IDC	Industrial Development Corporation
MERCOSUR	Southern Common Market (Argentina, Brazil, Paraguay and Uruguay, Venezuela and Bolivia)
MPs	Members of Parliament

ACRONYMS

NT	National Treasury
PC	Portfolio Committee
SACGA	South African Cane Growers Association
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAFDA	South African Farmers Development Association
SARS	South African Revenue Services
SASA	South African sugar association
SASCA	South African Sugar Converters' Association
SASMA	South African Sugar Millers Association
SMMEs	Small, Medium and Micro Enterprises
SMP	Sugar Master Plan
the dtic	The Department of Trade, Industry and Competition



1. EXECUTIVE SUMMARY

- On 10 May 2022, Trade, Industry and Competition Minister Ebrahim Patel briefed the Portfolio Committee on Trade, Industry and Competition on the progress made with regard to the Sugar Value Chain Master Plan.
- The Sugar Value Chain Master Plan was formally signed off by all stakeholders in a virtual ceremony held on 16th November 2020.
- The Master Plan was developed to address a number of serious challenges faced by the industry and to ensure its long-term sustainability.
- Since the signing of the Master Plan, various strides have been made including a commitment to support small-scale growers and industry transformation.
- The industry has already spent more than R600 million on industry transformation 2019/20-2021/22 as part of its commitment to invest R1bn in the industry's transformation over 5 years.
- In January 2022, the industry paid R60m as an additional premium price to qualifying small-scale growers.
- These funds were distributed against the backdrop of severe challenges that continue to plague the industry, including cheap foreign imports, the Health Promotion Levy (HPL or sugar tax), the unrest in July 2021, and the 2022 floods.



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2. RECAP OF PC MEETING ON 10 May 2022

In response to questions from MPs, **the dtic**, South African Sugar Association (SASA) Management, (industry) members and other stakeholders provided the following update:

- **A transformation specialist had been appointed** to develop a medium to long-term strategy;
- **Amendments to sugar regulations** have started as transitional arrangements expire in March 2024;
- **SACU harmonisation** was being dealt with in Task Team 1 of the Master Plan;
- The importance of **policy alignment** between government departments was critical to the success of the industry, particularly with regard to the Health Promotion Levy (HPL);
- **Diversification is key for the industry**, sustainable aviation fuel may be an exciting opportunity;
- With regard to **climate change**, millers and growers will continue to focus on sustainable practices;
- The industry will **focus on the deliveries of small scale growers to mills** for crushing during the season, particularly when milling performance is compromised/millers under pressure to crush cane.



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3. STATE OF THE SUGAR INDUSTRY

The sugar sector has encountered a number of problems in recent years. This has all contributed to the downward trend in sugar production.

Focusing on the last 6 years:

- **2015/16-2016/17:** Drought hits sugar production and industry profitability.
- **2017/18:** Production recovers, but the industry is faced with large-scale imports.
- **2018/19:** The implementation of Health Promotion Levy (HPL) by Dept. of Finance.
- The cumulative impact of these events has left the industry in a difficult situation with almost 20% lower production, 15% less land under cane, 2 mills being mothballed in 2020/21 (i.e. Darnall and Umzimkulu sugar mills, both in KwaZulu-Natal) and a massive 60% decline in Small-scale growers since the early 2000's.
- In addition, the unrest in July 2021, the 2022 floods, and higher than inflation wage increases add to the list of pressures simultaneously leading to low investor confidence and lack of much needed capital investment for maintenance.



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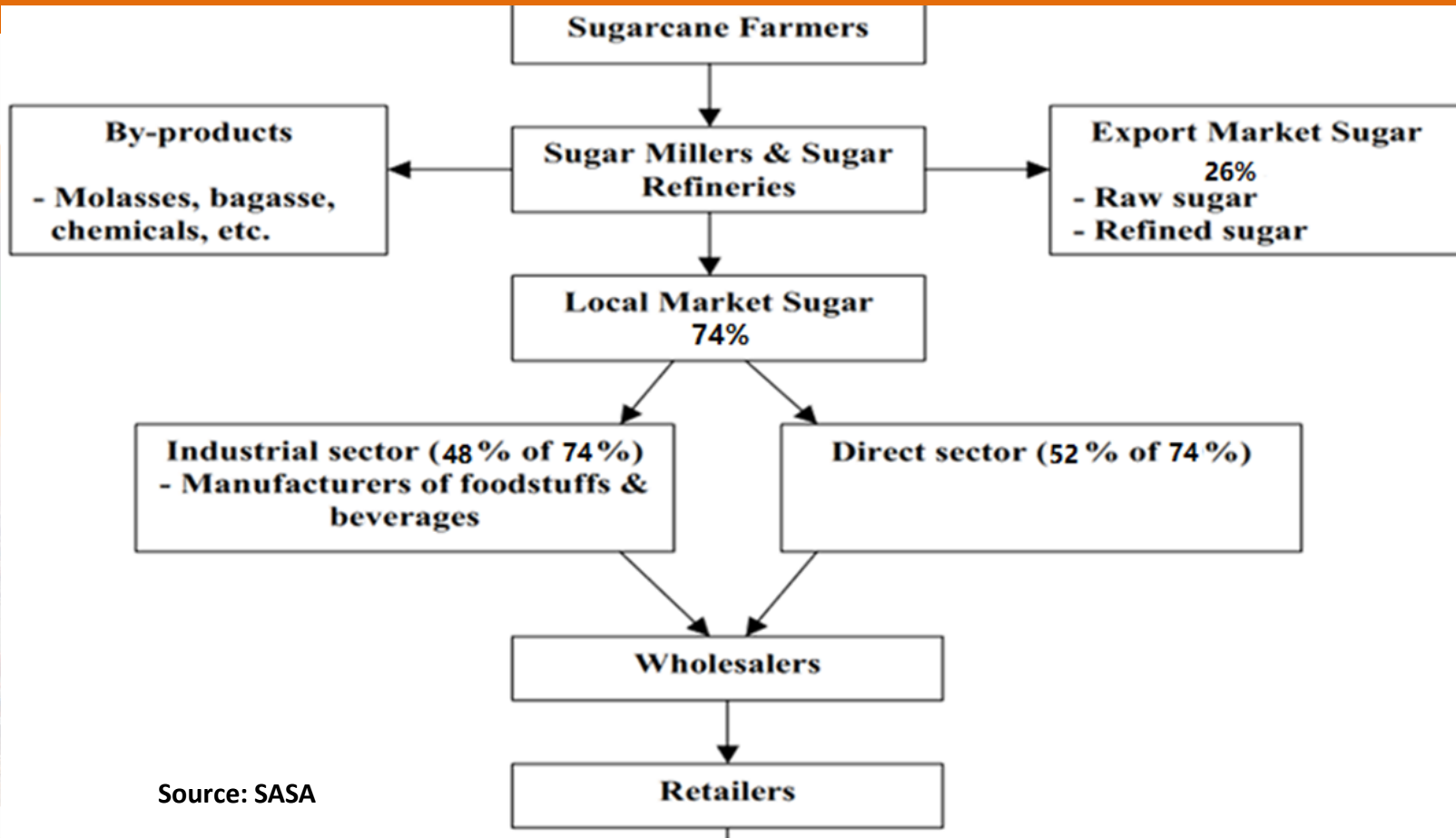
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4. Sugar Value-chain



Source: SASA



5. COMPETITIVENESS OF CONFECTIONARIES

- The total revenue of the confectionery industry in 2019 was R19 billion to R20 billion.
- The make-up of the above total value is R 6,4 billion Chocolate, and R 12,5 to R13,5bn Sugar-based Confectionery.
- The industry is made up of many different scales of manufacturing - from Multi-Nationals like Nestle and Mondelez, and diverse local businesses like Tiger Brands and Premier who have confectionery businesses within their portfolio.
- The industry is highly competitive with multiple players – including those that use a pure import model.
- Some like Mondelez and Nestle use a blended model of local manufacture and import.
- The industry is under pressure, mainly due to a challenging economic climate, low consumer confidence and increasing imports.



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6. Role Players –Sugar Value Chain Master Plan

- **Sugar Master Plan implementation structures**
 - 10 task teams established
 - Bi-monthly convenors meeting to track progress & cross-pollinate work
- **Sugar Beneficiation Task Teams**
 - **Task Team 6:** Downstream diversification
 - **Task Team 7:** Product Tax Policy Task Team
 - **Task Team 10:** Competitiveness of Sugar Convertors & Confectionary Manufacturers

Objectives:

- To develop a recommendation to the SMP members and key stakeholders about the future of the HPL based upon objective empirical data reviews research as well as inputs from wider SMP stakeholders.
- Identify/ develop feasible downstream products and strategies for requisite technology.
- To develop a plan for short-, medium and long-term policy, strategy and practical actions to support the local sugar convertors and sugar-intensive confectionary manufacturers in the sugarcane value chain.

Role-players:

Department of Trade, Industry, and Competition (**the dtic**)
Department of Agriculture, Land Reform and Rural Development (DALRRD)
National Treasury (NT)
Industrial Development Corporation (IDC)
Department of Health (DoH)

South African Sugar Association (SASA)
South African Sugar Millers Association (SASMA)
South African Cane Growers Association (SACGA)
South African Farmers Development Association (SAFDA)
Beverage Association of South Africa (BEVSA)
Consumer Goods Council of South Africa (CGCSA)

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7. Key Highlights & Achievements : Sugar Master Plan

- **Local Procurement:** Visible labelling on sugar packaging is promoting South African sugar. SA Canegrowers are collaborating with Shoprite and Proudly SA to assist with this initiative. Shoprite has agreed to make its labelling prominent in its Buy Local Campaigns. Five Buy-Local campaigns were implemented in 2021.
- **Notional Price increases:** Notional price increases have been kept on or below the CPI and as per the Master Plan have not occurred more than twice a year and at predictable and evenly spaced intervals.
- **Strategic Trade Support:** SACU harmonisation – Minister approved a 6-months extension of the rebate letter (i.e. transport rebate granted to importers in BLN in order to reduce the burden of transport from producers).
- **Product Tax Policy:** The government has delivered on its commitments on the threshold exemption level, rate, and scope of the HPL i.e. in 2020/21 & 2021/22. Although the Minister of Finance increased the sugar tax for beverages with more than 4g of sugar content from 2.21c/g to 2.31c/g, it has been agreed that implementation will be delayed by 1 year.
- **Proposed Downstream Diversification:** Sustainable Avian Fuel (SAF), polylactic acid (PLA), polyethylene, glutamic acid, juice additive to complement apple and pear juice have been established as viable downstream product streams to be explored as well as the Engen Repurpose Facility for ethanol production.
- **Transformation:** Sugar industry Transformation Fund: R214 million spent in 2020/21, R225 million in 2021/22 from the industry R1billion transformation fund. R200 million is to be allocated for the 2022/23 season of which R10,9m has been spent so far.

8. Progress: Sugar Value Chain Master Plan

Progress: Task Team 7 - Product Tax Certainty, Government commitment

- Government has delivered on its commitments on the threshold exemption level, rate and scope of the HPL:
 - Budget 2020/21 – no change to the HPL;
 - Budget 2021/22 – no change to the HPL;
 - Budget 2022/23 – HPL announced but implementation delayed.
- Task Team 7 continues to conduct work of investigating and developing a proposal for a long-term policy framework and approach to taxation of sugar and sugar-derived products.
- NEDLAC study on Impact of HPL approved and circulated.
- Department of Health dietary intake study has commenced.
- Government Department participants as observers in Sugar Master Plan workgroups: NDoH and NT.
- There are ongoing engagements between NT, **the dtic** and sugar industry stakeholders on HPL.



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8. Progress: Sugar Value Chain Master Plan

Progress: TT10 - Competitiveness of Sugar Convertors & Confectionery Manufacturing

- **the dtic** and South African Sugar Convertors' Association (SASCA) commenced a study to develop a fact-based analysis of sugar conversion and sugar-intensive confectionery sectors.
- Engagements with SASA and SASMA on price restraint are underway.
- Support to diversify industry – high-end value products markets underway.
- Market access opportunities in AfCFTA and EU.
- SASA has supported SASCA by providing a terms of reference for a consultant to draft a tariff application for SASCA (Bilateral between SASA and SASCA underway).



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8. Progress: Sugar Value-chain Master Plan

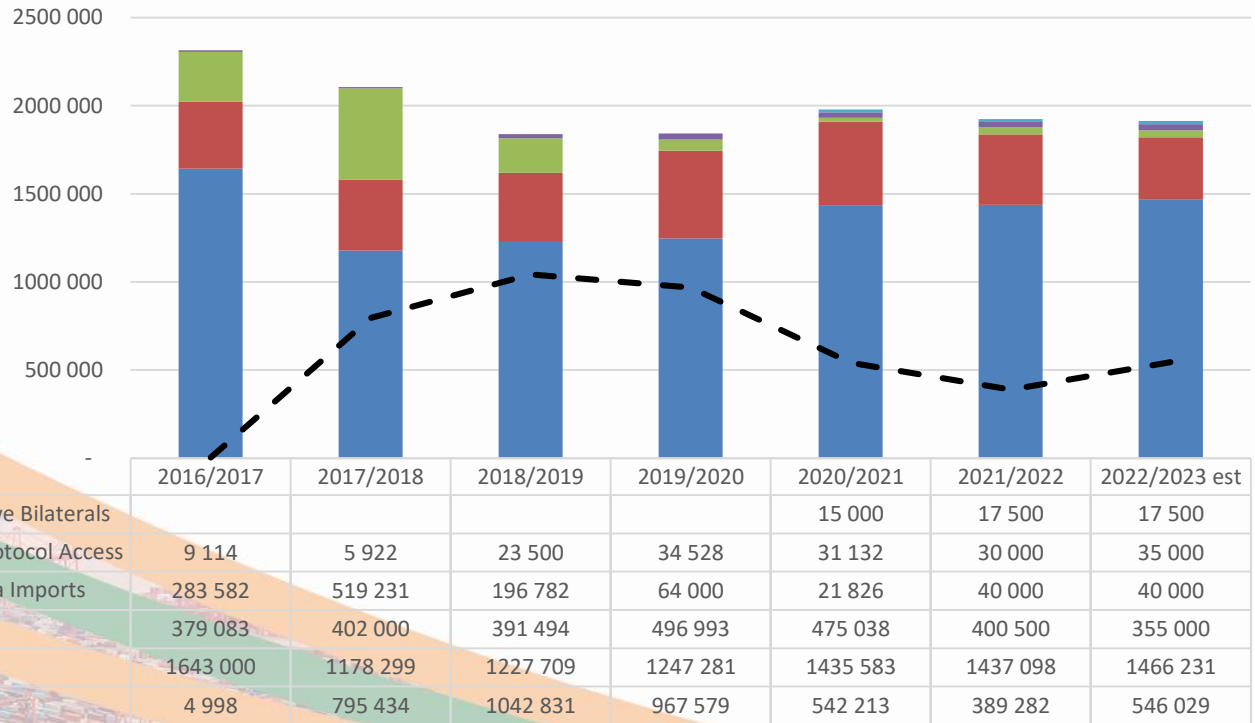
Local sugar market: Sales reporting year-to-date as at July 2022/23 (4 months)

	2019/2020	2020/2021	2021/2022	2022/2023
TOTAL INDUSTRIAL	180 578	189 798	228 549	262 307
		5%	20%	15%
TOTAL DIRECT	240 979	345 186	274 648	286 788
		43%	-20%	4%
BLN COUNTRIES	59 820	55 882	55 777	41 409
		-7%	0%	-26%
Total	481 376	590 866	558 973	590 504
		23%	-5%	6%

- From the July sales data, we are ahead of our forecast (by 13 968 tons, 6%) for the industrial market. Direct retail sales are up by 5% (13 113 tons) which is worth noting as the retail market has not been reporting sugar shortages. We are on track in terms of BLN with white and brown sugar offsetting one another.
- In terms of the Master Plan target for local procurement, if the 300 000 tons for year 3 is to be achieved, the sales should be in the region of 1.55 million. While we are seeing some welcome improvement, it is not clear at this stage if we will meet the 3-year target.



8. Progress: Sugar Value Chain Master Plan

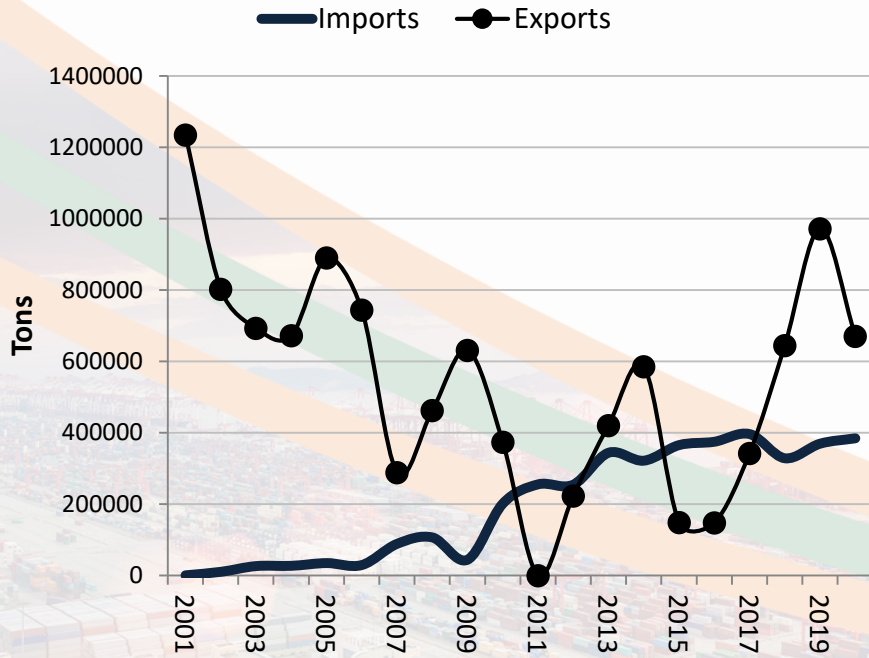


9. Key challenges for the Sugar Confectionery Industry

- **Pricing of input sugar-** despite the fact that notional price increases have been kept on or below the CPI, local confectionery producers are finding it difficult to compete with finished imports of confectionery products.
- **Access to markets/routes to market** - certain markets in sugar confectionery (i.e. lollipops) are oversaturated locally through wholesalers and informal channels. But opportunities exist in others, such as marshmallows and jellies, and retailers are a key route to market for these.
- **Developing capabilities and capacity** - smaller producers and producers in countries outside South Africa have limited capability and capacity to sustainably supply all stores in a chain. Given the importance of maintaining availability and consistency across stores, as well as the reputation of the chain, this is a valid concern.
- **Rising imports of chocolate:** Rising imports of chocolate -protecting our domestic market against EU imports using the appropriate remedies are necessary.
- South African market faces challenges **in terms of investment to support growth** as significant growth is being generated through the increase of imported products.
- One of the biggest areas of concern is the amount of sugar used in confectionery. This is in response to concerns about the link between **sugar and obesity**, as well as the growing trend for healthier diets.

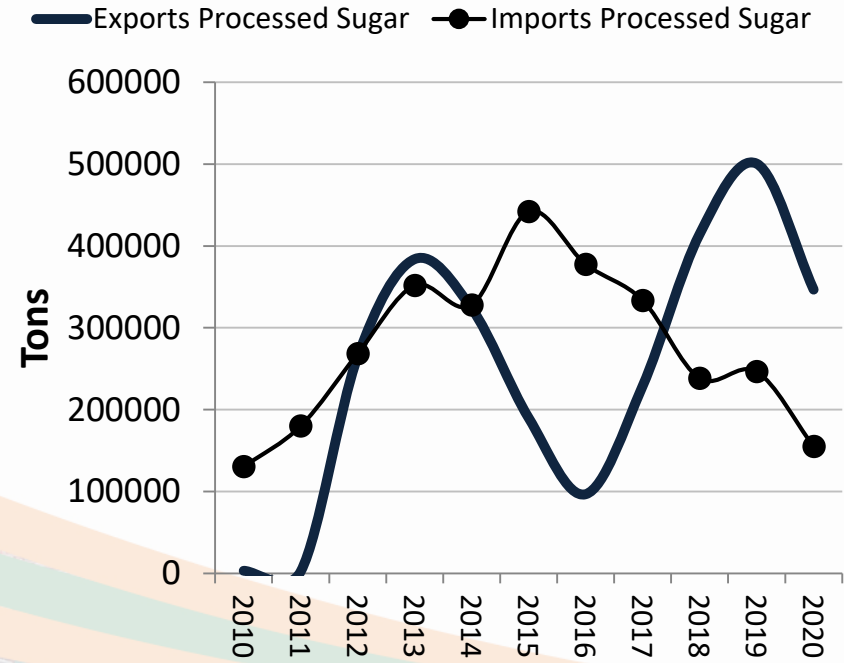
10. Imports and Exports of Raw and Processed Sugar

Imports and Exports of Raw Sugar HS1701 - 11,13,14



Source: Trademap.2022

Trade Balance Processed Sugar (HS 170199, 170191)



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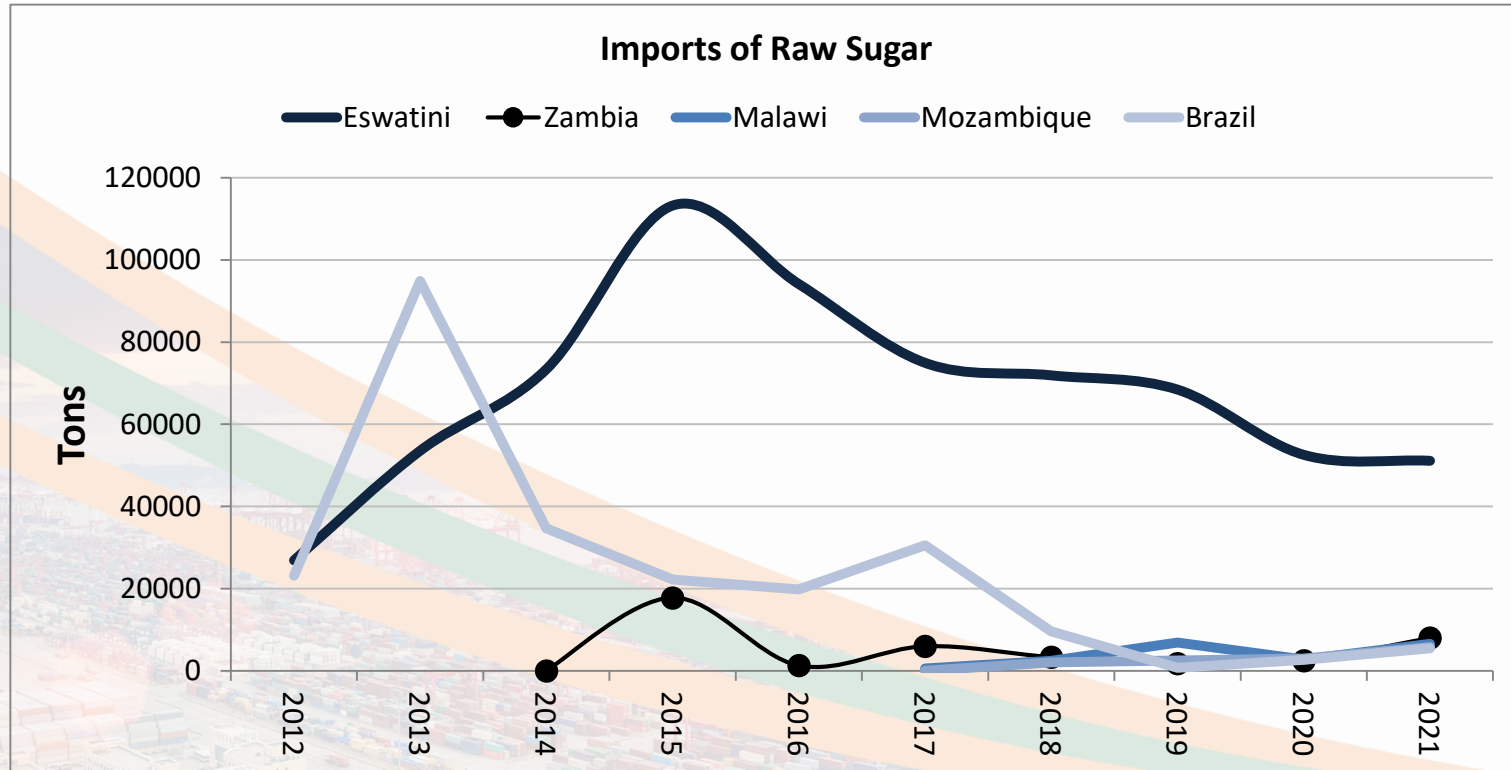


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10. South Africa Imports of Raw Sugar

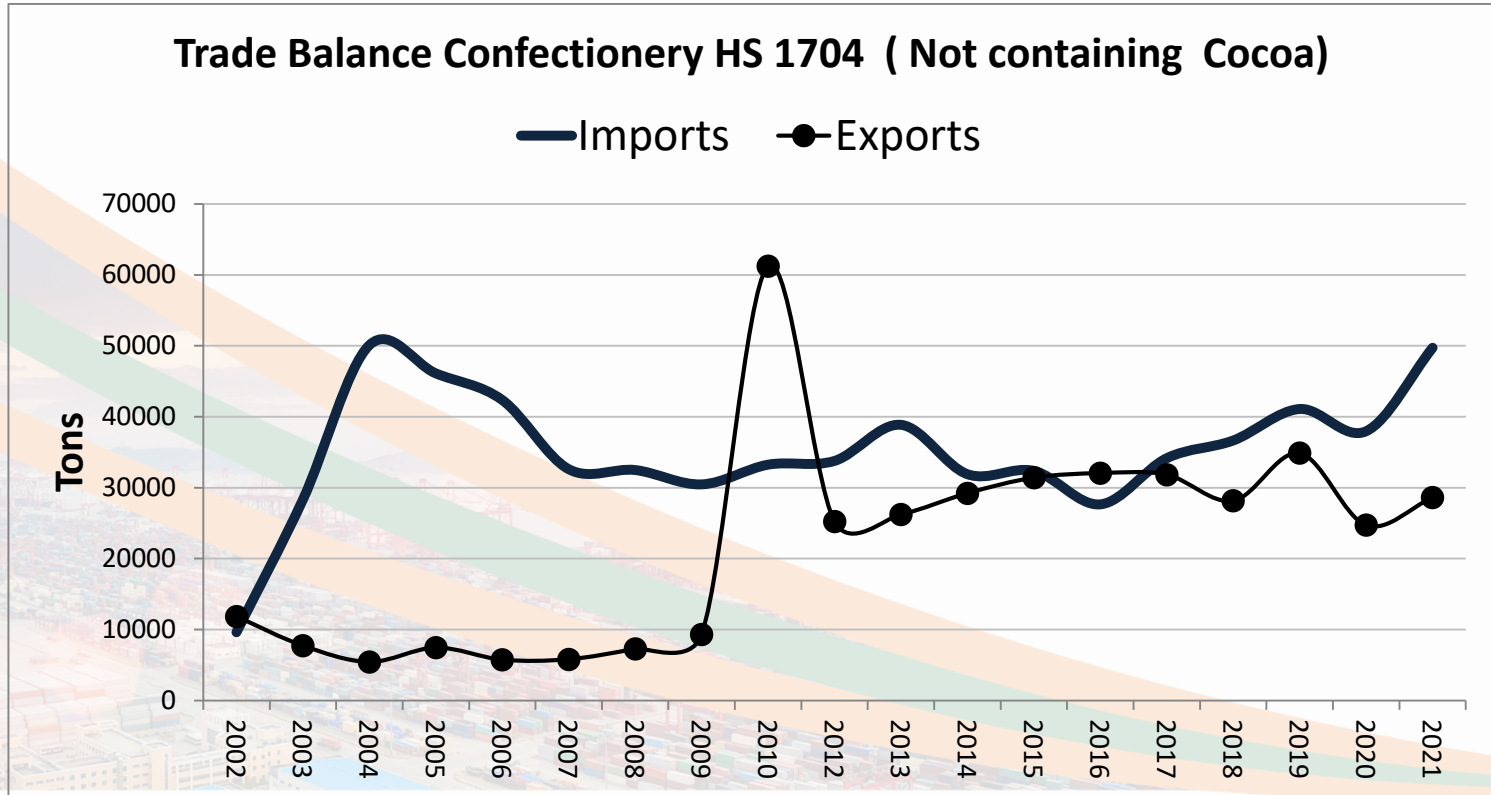
Imports largely from Eswatini (Data captured from 2012 in Trademap/SARS)



Source : Trade map 2022



11. Trade Balance Imports and Exports of Sugar Confectionery



Source : Trade map 2022

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11. Tariffs on chocolate

SUGARS AND SUGAR CONFECTIONERY									
Heading	Sub-heading	Article Description	Stat Unit	Rate of Duty					
				GEN	EU	EFTA	SADC	MERCOSUR	AfCFTA
17.04	1704.90	Sugar confectionery (including white chocolate), not containing cocoa: - Other	Kg	37%	25%	37%	Free	37%	37%



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12. Government interventions required

- **SA Revenue Service (SARS) and industry to deal with misinvoicing and under-declaration at customs** and dumped illicitly traded confectionery products.
- SA's confectionery industries to be protected from **unfair import** competition on chocolate (and even sweets).
- **Support local confectionery SMMEs** to increase capacity utilisation in existing production facilities.
- **Creating new production plants** to take advantage of the growing local demand.
- **Opening market access for export opportunities** in the growing markets of China and India, as well as on the African continent and beyond.
- Government to ensure adequate **import tariff protection** for both sugar and confectionery industries (tariff are in place for both sugar and confectionery products).



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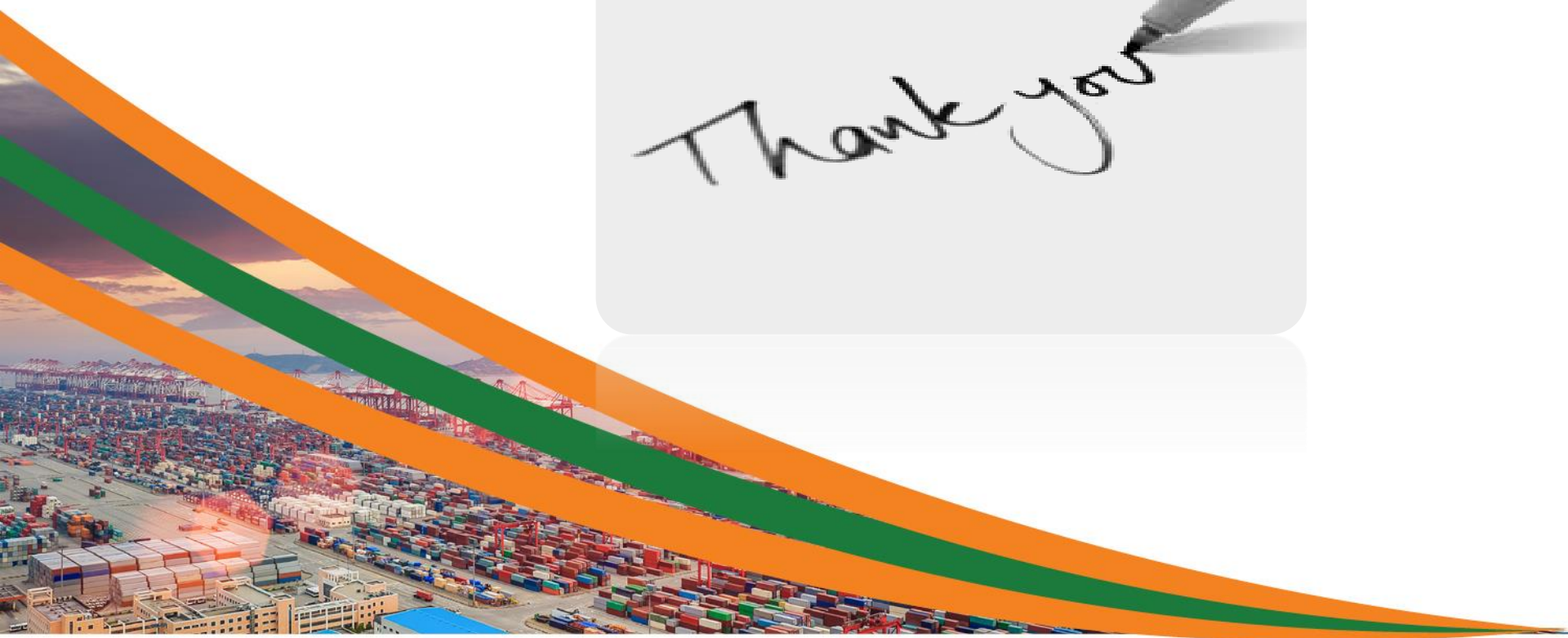
13. Next Steps and Way Forward

- **September 2022 – March 2023:** Implementation of the Sugar industry Master Plan to continue and strengthen partnerships.
- **October 2022 – March 2023:** TT7 - develop and present evidence-based recommendations for the long-term policy framework approach to the taxation of sugar and sugar-derived products.
- **September 2022- March 2022:** TT10 - finalise study on sugar conversion and sugar-intensive confectionary sectors.
- Ongoing engagement between DoH, NT and **the dtic** on the status of the comprehensive dietary intake study.
- To have actions aligned to the diversification task teams framework and roadmaps.
- There is potential for new products to play an important part in the future of the industry. The global move towards renewable energy and products (e.g. bio-chemicals) creates an opportunity for South Africa to participate in this area to a greater degree than it has in the past.





Thank you



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