REPORT NO. 588

INCREASE IN THE DOLLAR-BASED REFERENCE PRICE OF SUGAR FROM US$566/TON TO US$680/TON

The International Trade Administration Commission (ITAC) of South Africa presents **Report No. 588: Increase in the Dollar-Based Reference Price of Sugar from US$566/ton to US$680/ton.**

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CHIEF COMMISSIONER

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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INCREASE IN THE DOLLAR-BASED REFERENCE PRICE OF SUGAR FROM US$566/TON TO US$680/TON

Synopsis

The South African Sugar Association ("SASA" or "applicant"), on behalf of its members, applied for an increase in the Dollar-Based Reference Price ("DBRP") for sugar from the current US$566/ton to US$856.32/ton.

As motivation for the application, the applicant stated, *inter alia*, that the South African sugar industry has been on a long term downward trend, which is attributed to on-going challenges of reduced profitability driven by increasing input costs and stagnant yields. According to SASA, since 2000, the industry lost significant areas under cane and should the current policy framework be maintained, the current trend is likely to continue at a faster pace.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments, regarding increasing producers' losses, and losses by small scale black sugar cane farmers.

The aim of the current variable tariff formula is to ensure that Southern African Customs Union (SACU) producers are placed on a competitive footing relative to their international counterparts whilst being mindful of producers costs as well as of the downstream price impact. The variable tariff formula is deemed to better suit the circumstances surrounding the production and trade of sugar when compared to the normal *ad valorem* import duties that are in place for most other products. The variable tariff formula provides a swift tariff-based response, which is appropriate for commodities such as sugar due to the high frequency of variations in the price of this commodity. In order to ensure that an effective level of duty is in place when the formula triggers either an upward or downward adjustment, it is important that there be a speedy implementation of the triggered duty.

The sugar industry is important to the economies of South Africa and Swaziland (Eswatini) in the Southern African Customs Union (SACU) due to its substantial contribution to national employment, especially in rural areas, manufacturing and agricultural output as well as linkages to other sectors, which require a pricing system that does not render it unaffordable.

The domestic sugar industry's production volumes continued to decline subsequent to the drought in the 2015/2016 production season with South African sugar producers accounting for most of the declines in the SACU industry's production volumes. Concurrently, on average, the South African sugar producers' production cost has increased with the main cost drivers being input materials, inclusive of fuel and fertiliser, as well as direct labour, which resulted in sugar producers experiencing losses since the 2014/15 season.

Total imports increased significantly by 77 per cent over the three year marketing period (2014/15 - 2017/18), which can be attributed to a constant decline in the world average price of sugar, particularly during the period 2016/17 to 2017/2018. According to information at the Commission's disposal, SACU is a sugar surplus producer, which means that every ton of sugar imported displaces a ton of locally produced sugar into a distorted, low priced world market. In terms of imports, the SACU region's source of competitive pressure is imported sugar from Brazil that accounted for approximately half of total imports during the 2016/17 marketing season. A second source of sugar inflow is under the SADC Sugar Cooperation Agreement.

An analysis of the cost and price structure for commercial producers and cost information of small scale sugar producers were taken into account to ensure that the level of support in the form of DBRP is in line with the producers' production costs. It was found that the DBRP at US$680/ton presents a level of support, which is in line with the industry's production cost and supportive of the development of small scale farmers to farm profitably without having an undue adverse effect downstream. Unlike the wheat sector, where the level of duty plays an integral part in the determination of domestic wheat prices, in the sugar sector, an import tariff has less impact on the local price of sugar.

The average cost of sugar production per ton in the SACU is comparable with the proposed DBRP of US$680/ton.

The Commission considered the changed methodology proposed by the applicant but concluded that it differs significantly from the existing variable tariff formula for sugar. The level of duty would in effect be annually determined by the industry's own cost of production, which would disincentivise producers from producing sugar at competitive levels. This dispensation could not be justified given the negative impact it would have on downstream users and consumers and as the requested level was at considerable variance with production costs.

The Commission found that the South African sugar selling environment is highly competitive with South African millers competing with duty free Eswatini and other SADC imports, as well as duty-paid imports from other regions. Since 2016/17 marketing period, importers have increased their market share from approximately 5 per cent to approximately 23 per cent in 2017/2018. On the other hand, SACU sugar producer's market share has since declined from 95 per cent to approximately 77 per cent during the same period.

Tariff protection must be complemented by addressing competitiveness constraints in sugar production. A long term drive towards improved productivity remains critical. A holistic view of the sugar industry's long term prospects is also required. This includes a number of reforms related to its revitalisation that must provide the critical incentives for reinvestment by the growers and the processors. This includes alternative uses of sugarcane for energy and potentially, biofuels.

In order to address the aforementioned, a Sugar Industry Task Team was established between government and the private sector comprising of representatives from the Beverage Industry, Retailers, SASA, small holder farmers, small manufacturers and the Industrial Development Corporation (IDC) with a mandate to seek rapid solutions to the challenges facing the sugar industry focusing on short and medium to long term measures.

The Commission in its analysis found that sugar prices have been volatile over the past but, based on the National Agricultural Marketing Council ("NAMC") impact analysis report in terms of the price effect of various levels of the DBRP, NAMC found that the impact of an increase in the level of the sugar import tariff would reduce imports, increase local production and have a slight impact on the local price of sugar over the long term. The Genesis Report (2013) also found that although sugar prices have been volatile over the past, its impact on food inflation in terms of the consumer price increases in sugar-containing products constitutes a relatively small proportion.

In view of the above, the Commission decided that the DBRP on sugar be increased from the current US$566/ton to US$680/ton based on the 6-year average London No. 5 sugar settlement price of US$507/ton, plus an adjustment for the distortion factor evident in the domestic and international sugar market of 40 per cent, less the average ocean transport cost of sugar to a South African port of US$31/ton.

A 6-year period is deemed appropriate as it recognizes the significant change in the world sugar price over a period, which encompasses normal and drought periods, and will still place the SACU industry in a competitive position *vis-à-vis* imports at the proposed domestic reference price. It is further proposed that the DBRP be reviewed after a period of 3 years, which will ensure that recent developments are taken into account and enable the Commission to determine the impact of the proposed increase in the DBRP on employment, production and investment in the sector, as well as its effect on downstream industries and consumers.

The initial duty on sugar will be calculated as the difference between the DBRP of US$680/ton and the price of sugar on 20 June 2018, which amounted to US$347.38/ton at an exchange rate of R13.7675 to US$1.00 adjusted for price differentials between South Africa and its most important trading partners using the published Real Effective Rand Exchange Rate Index as follows:

REFERENCE PRICE	
Dollar-based reference price	US$680/ton
Minus: Average London No. 5 settlement price of sugar on 20 June 2018	US$347.38/ton
Dollar duty on sugar	US$332.63/ton
Rand duty on sugar before adjustment	R 4 579.41/ton
Adjusted with the Real Effective Exchange Rate Index (March 2018)	R 4 579.41 x 0.9161 = R 4 195.20/ton
Rand duty on sugar	419.52c/kg (equivalent to 87.72% *ad valorem)*

NB: numbers may vary slightly due to rounding

Adjustments to the level of protection will be based on quantum movements in the world reference price as follows:

The difference between the 20 trading day moving average of the London No. 5 settlement price and the established reference price for sugar will be calculated daily. If the 20 trading day moving average of the London No. 5 settlement price shows a variance of more than US$20/ton from the previous trigger level for 20 consecutive trading days, a new duty will be calculated. The resulting Dollar specific duty is converted to Rand according to the Rand/Dollar exchange rate prevailing on the day that the adjustment is triggered and subsequently adjusted with the latest available Real Effective Exchange Rate Index as published by the South African Reserve Bank.

The levels of duty for sugar will be capped at the bound rate of 105 per cent *ad valorem*.

1. THE APPLICATION

SASA, on behalf of its members, applied for an increase in the DBRP for sugar from the current US$566/ton to US$856.32/ton.

As motivation for the application, the applicant stated that the South African sugar industry has been on a long term downward trend. This is attributed to on-going challenges of reduced profitability driven by increasing input costs and stagnant yields. According to SASA, since 2000, the industry lost significant areas under cane (approximately 70 000 hectares). The applicant stated that should the current policy framework be maintained, the current trend is likely to continue at a faster pace. The reasons upon which the applicant based its request for an increase in the DBRP include the following:

a) *"The continued influx of duty paid imports;*
b) The current level (US$566/ton) is inadequate and is below cost of production (inadequate margins); and
c) As a mitigation measure against the impending Health Promotion Levy (HPL), formerly known as the Sugar Sweetened Beverage tax".

The application by SASA was published in the Government Gazette on 11 May 2018 for comment by interested parties. As part of the consultative process, ITAC engaged extensively with interested parties throughout the investigation.

These parties consisted of representatives from the SACU primary and secondary industries, importers, retailers and the Sugar Task Team. Representatives from the Sugar Task Team, primary and secondary sugar industries, the Association of South African Sugar Importers ("ASASI"), as well as the downstream manufacturers of products containing sugar e.g. the Beverage Association of South Africa ("BEVSA"), Tiger Brands Limited, Coca-Cola Beverages South Africa (Pty) Ltd ("CCBSA"), and the South African Farmers Development Association ("SAFDA"), made oral presentations to the Commission at its meeting of 26 June 2018.

2. THE EXISTING DOLLAR-BASED REFERENCE PRICE

The tariff dispensation for the sugar sector is currently determined by a variable tariff formula. This formula requires the calculation of a domestic reference price as follows:

Dollar-based reference price = World reference price + distortion factor - transport costs

This particular dispensation is deemed to better suit the circumstances surrounding the production and trade of sugar when compared to the normal *ad valorem* import duties that are in place for most other products. The reason for this is that a swift tariff-based response is required due to the high frequency of variations in the price of this commodity. The formula also accommodates exchange rate fluctuations and inflation differentials.

Further, the variable tariff formula counters high subsidies prevalent in the international sugar market. It provides protection to the domestic sugar industry when international sugar prices are low but does not overprotect the industry during periods when the international prices are high, hence ensuring that the price impact on downstream industries as well as consumers, is managed.

What also needs to be taken into account in understanding the tariff dispensation for sugar is that the South African ("SA") sugar sector is unique in that it is the only sector that is governed by an Act of Parliament, namely the Sugar Act, Act No. 9 of 1978 (last amended 5 June 1992) ("the Act"). The general aim of the Act requires the sector to be a surplus producer based on socio-economic factors.

The world reference price used in determining the DBRP is calculated by evaluating the price movements of the London No. 5 sugar settlement price over a period of time. The London No. 5 sugar settlement price is listed on the London International Financial Futures and Options Exchange, which is internationally recognised as a Free on Board ("FOB") world sugar price. However, this price is distorted by subsidies paid to producers to such an extent that it cannot be accepted as a fair reflection of the normal world price for sugar.

The international sugar market has undergone structural changes in terms of relatively recent technological advancements, whereby sugar is used to produce ethanol, which is internationally a highly subsidised product due to, *inter alia*, its infancy status. This is especially prevalent in Brazil, which interchangeably diverts sugar sales to either the refined sugar or ethanol markets depending on the demand requirements at the time. In order to establish a fair benchmark for the sugar pricing model, the long term average price for sugar should be adjusted upwards by a factor as a percentage, to factor in distortions in the domestic and international sugar markets.

The Commission considered that over and above tariff protection, the local industry also benefitted from natural protection, in that sugar is an expensive product to transport. Ocean transportation costs provide, on average, an additional protection of approximately US$31/ton.

According to information at the Commission's disposal, there is currently an oversupply of sugar in the world market, which is driving international prices down. This downward trend is attributed to record sugar production in Brazil, expected recoveries in output in India and Thailand due to favourable weather conditions, the end of the production quotas in the European Union ("EU"), and the expansion of sugar production area in China. Brazil remains the largest producer and exporter of sugar, followed by the EU, India, Thailand, Australia and China.

Since the introduction of the variable tariff formula for sugar by the then Board on Tariffs and Trade in 2000, ITAC has continued the use of the variable tariff formula to calculate the customs duty on sugar.

In 2008, the Commission investigated an application by SASA for an increase in the DBRP for sugar. Subsequent to the Commission's investigation and based on its findings, it recommended an increase in the DBRP for sugar from US$330/ton to US$358/ton as set out in ITAC Report No. 308 of 2009.

In 2013, the Commission again investigated an application by SASA for an increase in the DBRP for sugar. Subsequent to the Commission's investigation and based on its findings, it recommended an increase in the DBRP for sugar from US$358/ton to US$566/ton, as set out in ITAC Report No. 463 of 2014. This price support mechanism as per ITAC Report No. 463 was based on the rationale that the duty would place South African sugar producers and their foreign counterparts on an equal competitive footing whilst simultaneously being sensitive to food affordability.

The Commission, in its last investigation regarding the DBRP for sugar, considered a directive from the Minister of Economic Development in terms of Section 16(1)(d)(i) of the International Trade Administration Act, Act 71 of 2002, to evaluate and investigate the DBRP and variable tariff formula for sugar. The Commission recommended that the DBRP for sugar be maintained at US$566/ton (see ITAC Report No. 542), which was approved by the Minister of Trade and Industry on 19 April 2017. ITAC took into account production costs, food affordability, the impact on downstream users, exchange rate fluctuations and international inflation differentials.

During this investigation, the Commission recommended the introduction of a new variable, namely the Real Effective Exchange Rate ("REER") Index, into the variable tariff formulae applicable to wheat, maize and sugar as it would address the impact of exchange rate fluctuations and inflation differentials as mentioned above. This variable is factored into the variable tariff formula to ensure that producers are protected against real cost pressures and foreign currency denominated intermediate input costs such as fertiliser and machinery parts while not benefitting unduly from exchange rate movements, by adjusting the duty with the Rand's REER Index as published by the South African Reserve Bank. The REER Index is factored in to support producers proportionally against a depreciating or an appreciating currency by adjusting the nominal Rand exchange rate for price differentials between South Africa and its most important trading partners. This would ensure that windfall profits or unnecessary additional protection to producers due to exchange rate fluctuations do not accrue to producers at the cost of food affordability.

The existing tariff position for sugar is shown in Table 1 below:

Table 1: Existing tariff position for sugar

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
17.01		**CANE OR BEET SUGAR AND CHEMICALLY PURE SUCROSE IN SOLID FORM**						
1701.1		**Raw sugar not containing added flavoring or colouring matter:**						
	1701.12	Beet sugar	Kg	233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg
	1701.13	Cane sugar specified in subheading Note 2 to this chapter	Kg	233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg
	1701.14	Cane sugar	Kg	233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg
1701.9		**Other:**		233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg
	1701.91	Containing added flavoring or coloring matter	Kg	233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg
	1701.99	**Other**	Kg	233,81c/kg	233,81c/kg	233,81c/kg	233,81c/kg*	233,81c/kg

(Source: SARS)
*Only applicable to non-SACU, non-sugar producing SADC Member States

The World Trade Organization ("WTO") bound rate for South Africa for sugar is 105% *ad valorem.*

In order to give effect to the SADC Trade Protocol, a provision for rebate of the full duty in terms of Schedule No. 4 to the Customs and Excise Act, 1964, was created with respect to raw or refined sugar imported from non-SACU sugar producing SADC Member States. (Rebate provision item 460.04/17.01/01.04).

At the time of the Uruguay Round of the WTO negotiations, South Africa's level of bound rates for agricultural products was deemed to be high. Subsequently, South Africa agreed to the introduction of Minimum Market Access rebates for certain agricultural goods, which allows for a specific percentage of lower rated duty imports calculated as a percentage of the bound rate.

3. TARIFF HISTORY

Subsequent to the implementation of Report No. 542 on 28 July 2017 when the DBRP for sugar was maintained at the US$566/ton level, the duty triggered twice. Details of these triggers are as shown in Table 2 below:

Table 2: Changes in the variable tariff for sugar

Duty per ton	Date of trigger	Gazetted	Three week moving average world price at the time of trigger	Upward or downward trigger	Ad valorem equivalent
R 2 131	24/08/2017	15/09/17	US$379.19	*Upwards* 0c/kg – 213.10c/kg	42%
R 2 338	12/04/2018	08/06/18	US$315.36	*Upward* 213.10c/kg – 233.81c/kg	55%

(Source: ITAC)

As shown in Table 2 above, at the core of the changes in the level of tariff support were movements in the world price of sugar. Further, it can be seen from this table, that the declining world price necessitated an increase in the tariff to support domestic producers effectively, by ensuring that local sugar prices did not fall below the set domestic reference price.

4. THE REQUESTED REFERENCE PRICE

SASA's request is that the methodology for determining the DBRP be amended and be based on the industry's production cost, where two sets of data, namely, Landell Mills Commodity (LMC) data and SASA's cost of production figures are used to determine the cost of production.

The first set is based on data from LMC International, a UK based research firm that provides publicly available cost data for all sugar producing countries. The second set of data is local industry's confidential data submitted by the South African Cane Growers Association (SACGA) and the South African Sugar Millers Association (SASMA), on behalf of their respective members.

SASA's request therefore entails that the DBRP be substantially altered from the current methodology used to determine the variable tariff formula, as described in the previous sections, and instead be based on the domestic sugar industry's own cost of production and desired return on investment.

According to SASA, the DBRP level of US$856/ton was calculated using the LMC cost for raw sugar for 2016/2017 (US$477/ton), refining premium (US$98.42/ton) and packing and storage costs (US$57.55/ton), which resulted in a total cost of US$642.92/ton. In addition, SASA adjusted the LMC cost by the REER Index for September 2017 (0.8414) and added government policy cost of US$92.21/ton, which resulted in the final DBRP level of US$856/ton.

Using the world sugar price of US$347/ton as at 20 June 2018 and the Rand-Dollar rate of exchange of R13.77 to US$1.00 on the day, SASA's requested DBRP would result in a specific duty of 642c/kg (equivalent to 134% *ad* *valorem*). This is well above the WTO bound rate of 105% *ad valorem*.

5. INDUSTRY AND MARKET

a. The international market

Sugar is produced in more than 100 countries and global production is expected to exceed 180 million tons for 2017/2018 forecast period. According to the United States Department of Agriculture (USDA, 2017), the aforementioned is based on the following contributing factors[1], record production in Brazil, expected recoveries in output in India and Thailand due to favourable weather conditions, the end of the production quotas in the EU, and the area expansion in China. Brazil remains the largest producer and exporter of sugar, followed by the EU, India, Thailand, Australia and China. South Africa only exports surplus sugar after satisfying the domestic market demand.

According to information at the Commission's disposal, approximately three quarters of sugar production is consumed in the countries of production. The balance is traded in the international sugar market, generally at prices below those supported by economic fundamentals. The distorted world sugar price arises from interventionist measures adopted in a number of sugar producing countries. These measures, which have the effect of artificially increasing the supply of sugar to the world market, include producer and export support programs, market access constraints such as preferential quotas and special market arrangements, and are supported by high import tariffs.

According to USDA (2017), since 2011/12, China has been the world's leading sugar importer, followed by Indonesia and the United States. Indonesia is expected to surpass China in 2017/18 with growing imports from Brazil.

b. SACU market

The South African industry has been severely impacted by one of the worst droughts in history during the 2015/16 season. Sugar production levels of approximately 2.3 million tons in 2013/14, decreased to approximately 1.5 million tons in 2016/17 due to poor rainfall in the rain-fed coastal and midlands areas and reduced plantings.

South African sugar is produced from sugar cane by approximately 20 161 registered sugarcane growers, who annually produce, approximately 20 million tons of sugarcane from 14 mill supply areas. Approximately 18 860 are small-scale growers, producing approximately 10 per cent of the total crop.

According to the South African Sugar Industry Directory[2], there are approximately 1 327 large-scale growers (inclusive of 323 black emerging farmers) who produce approximately 82 per cent of total sugarcane production. Milling companies with their own sugar estates produce 8 per cent of the sugar crop.

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[1] United States Department of Agriculture (USDA, Nov 2017), available online at: https://apps.fas.usda.gov/psdonline/circulars/sugar.pdf

[2] South African Sugar Industry Directory 2016, available online at: http://www.sasa.org.za

On average, the South African sugar industry processes 20 million tons of cane on 362 000 hectares of land in a season, resulting in an average sugar production level of 2.2 million tons from the existing mill capacity of approximately 2.8 million tons per annum. According to SASA, in spite of its atypical agro-climatic conditions, South Africa is a globally competitive producer of high quality sugar. The country ranks in the top 15 of 120 most cost competitive sugar producers in the world, an indicator that local farmers and millers operate efficiently by global standards.

According to information at the Commission disposal, the South African sugar industry, as measured at the level of sales of sugar and molasses only, contributes approximately R16 billion to the South African economy. The average value of sugarcane farming accounts for close to 64% of this contribution. It is an essential anchor for economic and rural development in Kwa-Zulu Natal and Mpumalanga provinces, and supports significant investment into rural and provincial economies.

In terms of production factors, imported inputs included in sugar production from farming to refining the final product vary from farmer to farmer and mill to mill, however, in broad terms they include the following:

- Fertiliser;
- Fuel;
- Herbicides;
- Tractors;
- Spares;
- Cane Loaders;
- Bale Loaders;
- Laboratory equipment and chemicals;
- Refining and filtering chemicals; and
- Milling plant, machinery, equipment and spares.

Initial planting costs are high but these are spread over a number of harvests. New plantings are done via vegetative propagation, which usually takes place in September/October. Cane harvesting occurs between April and December when it is delivered to the sugar mill.

According to the applicant, the age of cane varies between 11 months and 24 months depending on harvesting cycles and geographic location (cooler inland areas generally have older cane). Certain mill areas are only suitable for dry land and supplementary irrigation, and others are fully irrigated. Much of the land on which sugarcane is grown is steeply undulating and is therefore only suitable for a crop such as sugarcane which is not replanted annually therefore effectively conserving soil.

SASRI (The South African Sugar Research Institute) and SMRI (The Sugar Milling Research Institute) strive to improve cane varieties and growing conditions, and factory operations, equipment and processes, respectively. These institutes provide applied research solutions, consulting, training and routine analytical services to the growers and mills to ensure the sustainability of the South African sugar industry. These institutes collaborate widely with other organizations around the world to keep abreast of the latest technologies applicable to the manufacture of sugar, and other technologies that may be applied in the industry to improve efficiencies and reduce costs. In addition to the work undertaken by these institutes, individual milling companies also fund and undertake research which is particularly relevant to their operations. Contact with foreign sugar milling companies provides benchmarking opportunities and for the exchange of information relating to developments in sugar manufacturing techniques.

Information at the Commission's disposal indicated that four of the fourteen South African mills are owned by Illovo Sugar Ltd; four mills are owned by Tongaat-Hulett Sugar Ltd and three mills by RCL Foods. UCL Company Ltd, Gledhow Sugar Company and Umfolozi Sugar Mill each operate one mill. Two of the RCL Foods mills are located in the Mpumalanga province and the remaining mills are in the Kwa-Zulu Natal province.

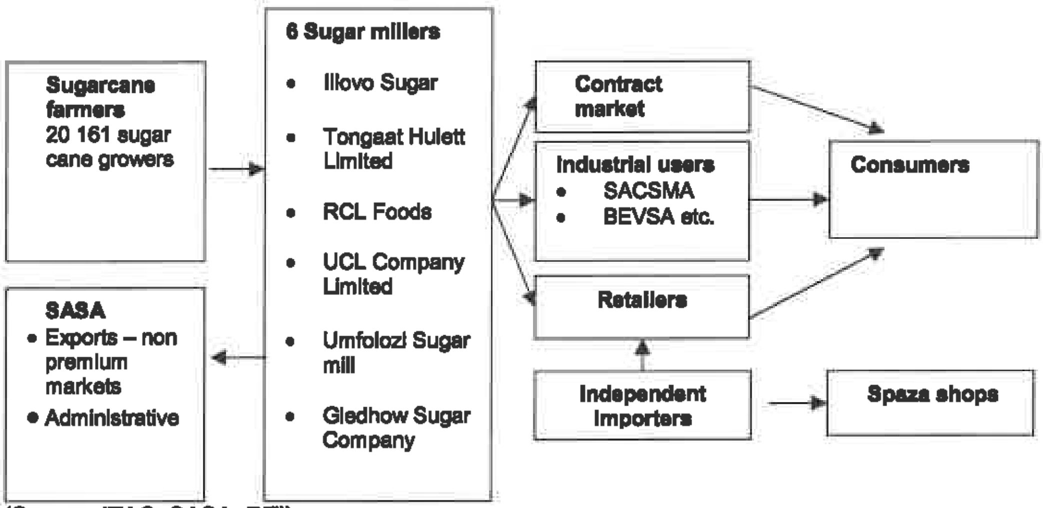
The members of the South African Sugar Millers' Association Limited, which represents the interests of all sugar millers and refiners in South Africa, are:

- **Illovo Sugar Ltd** - which operates four sugar mills in South Africa, one of which has a refinery and two have packaging plants. It has three cane growing estates and produces a variety of high-value downstream products.
- **Tongaat-Hulett Sugar Ltd** - which operates four sugar mills in South Africa, two of which have packaging plants, a central refinery in Durban which has its own packaging plant, various sugar estates and an animal feed operation.
- **RCL Foods** - which operates three sugar mills, two of which have refineries, a packaging plant, sugar estates, cane and sugar transport and an animal feed division.
- **UCL Company Ltd** - which operates a sugar mill, a wattle extract factory, two saw mills, a number of mixed farms and a trading division.
- **Gledhow Sugar Company (Pty) Ltd** - which produces refined sugar to EEC2 standard, and supplies this sugar to the food and beverage industries in Southern Africa.
- **Umfolozi Sugar Mill (Pty) Ltd** - which bags high quality VHP brown sugar for sale into the industrial and retail markets.

The sugar industry is strategic within the agricultural and agribusiness sector, with upstream and downstream linkages within the South African rural economy.

The South African sugar value chain is presented in Figure 1 below:

Figure 1: South African Sugar value chain



(Source: ITAC, SASA, DTI)

According to information at the Commission's disposal, Eswatini is the only other sugar producer in the SACU. According to Swaziland Sugar Association (SSA), the Eswatini sugar industry consists of 486 growers (442 of which are smallholder growers, either operating individually or as part of associations with membership averaging 61 members per association) and 3 millers, namely Simunye planters, Mhlume planters and Big Bend planters. The cane growers are aligned with their respective millers – i.e. Simunye mill, Mhlume mill and Ubombo mill. The operations of the Eswatini sugar industry are regulated by the Swaziland Sugar Association (SSA), which is the highest policy-making body and is the Council that comprises twelve members from the Swaziland Sugar Millers Association (SSMA) and twelve members from the Swaziland Cane Growers Association (SCGA).

According to SSA the industry produces approximately 5.4 million tonnes of cane from a land area of over 57,770 hectares (reflecting a highly productive yield of over 93 tonnes of cane per hectare). Sucrose content is 14 per cent per tonne of cane, making it one of the industries with the highest yields globally. Total sugar production for the past season was 650,126 tonnes, of which 218,176 tonnes is in the form of bulk raw sugar for refining, 215,261 tonnes is VHP/brown sugar for direct consumption and 216,689 tonnes is refined/white sugar for direct consumption or industrial use. According to SSA, Eswatini is amongst the top 5 cost-efficient producers in the world and is the third most cost efficient in Africa.

6. PRODUCTION AND SALES

The actual production and sales of sugar in the SACU, for South Africa and Eswatini is as shown in Table 3 below:

Table 3: Market and trade analysis

Marketing period Year (1 April - 31 March)	2013/14	2014/15	2015/16	2016/17	2017/18
Industry Production Capacity (Tons)	3 480 000	3 480 000	3 480 000	3 480 000	3 480 000
Industry Actual Production (Tons)	2 996 987	2 794 451	2 315 740	2 125 825	2 645 198
Industry Total Sales Volume (Tons)	2 991 030	2 797 951	2 320 347	2 160 903	2 547 208
Industry Total Sales Value (Rand)	16 723 406 169	16 113 659 276	15 370 139 084	17 745 506 340	17 561 519 501

(Source: SASA and SSA)

As can be seen in the table above, SACU's total sugar production decreased, in terms of volume, by 7%, 17% and 8% from the 2013/14 to 2014/2015 season, the 2014/15 to 2015/16 season and the 2015/16 to 2016/17 season, respectively. It is estimated to increase by 24% from the 2016/17 to 2017/18 season.

In terms of sales, SACU's sales values decreased by 4% and 5% from the 2013/14 to 2014/2015 season and 2014/15 to 2015/16 season, respectively. It subsequently recovered by 16% from the 2015/16 to 2016/17 season; however it is estimated to decrease again by 1% from the 2016/17 to 2017/18 season.

The SACU sugar industry's exports have, on average, declined for the period 2013/14 to 2016/17. The declines in export volumes were as a result of the effect of the drought in 2015, which affected the production of sugar both in South Africa and Eswatini. The portion of surplus sugar that would generally be channelled to the export market was instead channelled into the domestic market. However, exports have also recovered significantly in the 2017/2018 season, with the SACU industry exporting in excess of 1 million tons of sugar.

7. TRADE DATA

Total sugar imports decreased, in terms of volume, by 32% from 2014/15 to 2015/16, but increased by 253% from 2015/16 to 2016/17, and increased further by 11% from 2016/17 to 2017/18. Overall imports increased, on average, by 77% from 2014/2015 to 2017/2018.

Imports from Brazil and United Arab Emirates ("UAE") accounted for approximately 49.1 per cent and 24.9 per cent, respectively, in 2016/2017, amounting to a combined total of approximately 74.1 per cent.

The increase in the level of sugar imports into the SACU region can be attributed to the constant decline in the world average price of sugar, particularly during the period 2016/17 and 2017/2018. Between 2016/17 and 2017/18, the world price of sugar declined by approximately 23 per cent.

The majority of imports into the SACU region originated from Brazil, which accounted for approximately 42 per cent of total imports during the 2017/18 marketing season. Since the 2016/17 season, imports from UAE, which refines raw sugar, have increased significantly from 2015/16 to 2017/18.

Brazil remains the main low-priced exporter of sugar globally. The combined imports from Brazil and UAE accounted for nearly 62 per cent of total imports (excluding SACU) while imports from other regions (excluding SACU) accounted for the remaining 38 per cent of total imports in the 2017/18 season.

8. ANALYSIS OF SACU MARKET SHARE

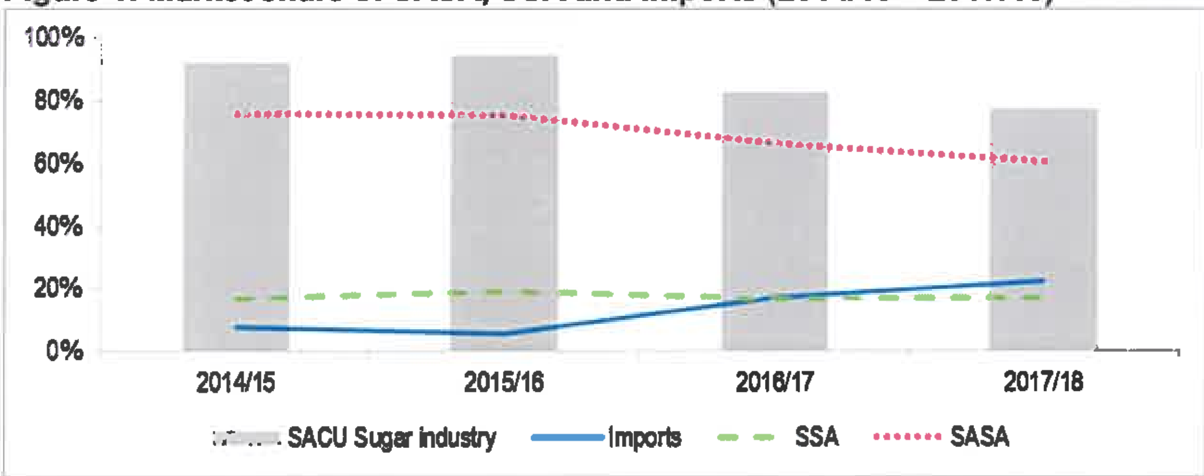
Table 4 below, reflects the estimated size of the SACU sugar market, which is represented by SASA and the Swaziland Sugar Association (SSA). Import data has been adjusted to correspond with the industry marketing year, which runs from the beginning of April to end of March.

Table 4: Estimated size of the SACU sugar market

Period	Total SACU sales	Annual growth rate of SACU sales (%)	Total SACU sales in terms of volume (Tons)		% share of sales to total SACU sales in terms of volume (Tons)	
April -March	Volume (Tons)	Volume (%)	Imports	SACU Sugar Industry	Imports	SACU Sugar Industry
2014/15	2 175 582	-13%	166 075	2 009 507	8%	92%
2015/16	2 086 401	-4%	112 816	1 973 585	5%	95%
2016/17	2 316 848	11%	398 525	1 918 323	17%	83%
2017/18	1 964 537	-15%	442 524	1 522 013	23%	77%
Average (2014/15 -2017/18)	2 135 842	-5.3%	279 985	1 855 857	13%	87%

(Source: SASA, SSA, SARS & ITAC calculations)

Figure 1: Market share of SASA, SSA and imports (2014/15 – 2017/18)



(Source: SASA, SSA, SARS and ITAC calculations)

As shown in Table 4 and Figure 1 above, the total SACU market for the 2016/17 period comprises sugar supplied by South Africa, Eswatini, SADC countries and all other imports.

Table 4 above shows that the average share of the SACU sugar industry's sales volumes was approximately 87 per cent for the period 2014/15 – 2017/18, while imports represented approximately 13 per cent of the SACU market during the same period. Between 2014/15 and 2015/16 there was an increase of approximately 4 per cent in SACU producers' sales volume, while the share of imports declined from approximately 8 per cent in 2014/15 season, to approximately 5 per cent in 2015/16 marketing season.

Domestic producers' sales volumes and market share in the SACU market marginally recovered from 92 per cent in 2014/15 to approximately 95 per cent in the 2015/16 season. The decline in imports could be attributed to a constant increase in the average world price of sugar, coupled with the depreciation of the Rand.

Since 2016/17 marketing period, importers have increased their market share from approximately 5 per cent to approximately 23 per cent in 2017/2018. On the other hand, SACU sugar producer's market share has declined from 95 per cent to approximately 77 per cent during the same period.

An analysis of import statistics on a month to month basis indicated that the level of imports since August 2017 increased periodically, which may be attributed to the opportunistic trading practices and/or stockpiling, given that importers also have access to London No. 5 data and can therefore also predict when a duty is likely to trigger. This is why prompt implementation of triggers is required for the variable tariff system to be effective.

9. EMPLOYMENT

According to information provided by SASA, the South African sugar industry's employment figures are based on a survey conducted in 2011, which indicated that a total of 105 739 people were employed in the sugar industry, with 76 418 employees directly involved in the production of sugar cane and sugar. SASA submitted that these statistics are the most recent as employment surveys are not conducted frequently.

10. COMPETITIVE POSITION

According to information at the Commission's disposal, financial information pertaining to production costs provided by SASA was consolidated from information that was provided by the growers' and millers' associations. The figures were based on average costs, which were based on surveys conducted by the respective associations. According to SASA, all the actual cost price structures were audited, excluding the estimates for the 2017/18 period.

It was found that, on average, domestic production cost has increased from the 2013/14 to the 2017/18 marketing season. The main cost driver in the production of sugar is processing material, followed by direct and indirect labour costs. According to information at the Commission's disposal, since the 2014/15 season, domestic sugar producers have been consistently experiencing losses.

According to SASA, the South African sugar industry has remained under immense pressure and the domestic sugar industry has experienced severe price suppression since 2014/15 season.

11. COMMENTS ON THE APPLICATION

The Commission received 13 pre-publication and 57 post-publication comments.

The objections focussed mainly on the following:

- The South African sugar industry is not cost effective;
- The sugar industry has not invested sufficiently in South African operations;
- The sugar industry is selling land, not planting sugar;
- The sugar industry needs to diversify;
- The import crisis is not real;
- Imports are necessary, and importers play a crucial role in job creation;
- Greater tariff protection will have price-raising effects and harm consumers;
- Sugar industry rebates for local downstream users reduced;
- Protection that reduces imports will have negative consequences on a competitive market place;
- The scale of the sugar industry is artificially increased, necessitating unwarranted surplus removal;
- The Health Promotion Levy is no justification for import protection;
- The ITAC/dti/SARS administration process is the real issue, not the DBRP level;
- No justification for an application in less than 12 months since ITAC's last report, Report 542 was published;
- If the exact parameters used in ITAC Report No. 542 are applied, using current data, the formula would yield a lower DBRP; and
- The methodology of using a variable tariff formula in calculating a DBRP level is contrary to the World Trade Organisation agreement on agriculture.

SASA submitted the following counter comments:

- In response to the submissions that the SA sugar industry is not cost competitive as there is a significant difference between the domestic and international price of sugar of approximately R4500/ton; SASA stated that the world sugar market is distorted by producer country incentives, resulting in production levels that exceed demand. Further, SASA indicated that the sugar industry is a residual market characterised by a price far below the cost of production for any country.

- In response to statements that the sugar industry needs to diversify, SASA stated that the SA sugar industry has for several years been engaging with government in terms of access to the renewable energy market, both cogenerated electricity and biofuels, however, no significant progress has been made in this regard. SASA further stated that detailed policy submissions, cost benefit analyses, and the potential socio-economic impact analyses have been completed, and is at the Department of Energy and the Independent Power Producers (IPP) offices.

- SASA submitted that it noted the submissions made by various downstream users who stated that the requested increase will have a cost raising impact and harm consumers. However, SASA stated that the SA sugar industry has in the last 12 months taken two significant price reductions, 20% in cumulative terms, in order to regain market share. SASA argued that these reductions have seen domestic sugar prices decline further to levels far below local production costs and is consequently not sustainable.

- Responding to the submission that the sugar industry is too big, and that there is no justification for the policy cost of US$92/ton to be added in the calculation of the US$856/ton, SASA stated that shrinking the sugar industry to a level that would be in line with domestic demand would have a catastrophic impact with respect to the area under cane as well as on employment levels in the agriculture and milling sectors. SASA stated that the Sugar Industry Agreement (2000) Clause 181 requires that any sugar produced in surplus to local demand must be purchased by SASA and sold in the export market. SASA is bound to export on an annual basis, and must do so in order to realise proceeds from sales with which to pay millers for export deliveries. The existence of the legislated surplus removal scheme in the sugar industry makes it unique compared to other industries for which the DBRP is used, and therefore, necessitates the inclusion of the surplus removal as a cost of production.

- SASA also responded to the submissions that the implemented Health Promotion Levy (HPL) is no justification for import protection. In its response, SASA explained that the imposition of the HPL is to influence consumer purchasing sugar sweetened beverages. SASA made reference to a letter by EDD's Acting Director-General dated 14 February 2018, that stresses the urgency of saving and creating employment in the sugar industry in light of the HPL. In response to the various submissions that highlighted the need to minimise the impact of the aforementioned tax through reductions in unit sizes and reformulations of products to contain less sugar, SASA submitted that the sugar industry does not enjoy the luxury of reformulations or adjusting packaging sizes to mitigate the impact of the tax on the very raw material it produces. SASA stated that the protection of the sugar industry is consequently required in order to give the industry opportunity to diversify and reduce reliance on the sales of sugar into the beverages market.

- SASA also addressed the objections stating that the DBRP is contrary to SA's WTO agreement on agriculture. SASA stated that the bound rate has never been reached, and at the current levels of world sugar prices, it is likely that the bound rate may be activated. SASA argued that the WTO bound rate is applicable to the actual duty calculated where there is a trigger, and therefore the bound rate does not and should not affect the setting of the reference price. As such, the reference price is not bound by the WTO rules, and each country is at liberty to set a reference price at the level deemed fit to offer appropriate protection to the local industry.

- SASA also noted that the issues of administration of the DBRP and the variable tariff formula on sugar have been raised in several submissions as a major concern. SASA expressed its agreement that this needs to be addressed and stated that the efficacy of the mechanism is highly dependent on the efficient administration of the process between ITAC, The DTI, and National Treasury, which process was subject to an urgent application in the Pretoria High Court in 2017.

12. RECIPROCAL COMMITMENTS BY SASA

In its application submitted to ITAC, SASA initially indicated that should the support be granted, it could lead to further growth interventions that will result in advancing the sugar industry to higher levels.

However, on 26 April 2018, SASA submitted revised reciprocity undertakings, which recognise the inequalities that persist in the sugar value chain, in spite of industry-driven initiatives over many years. According to SASA, projects to address inequalities and further promote transformation of the industry are key to its future success.

According to SASA, the following initiatives represent the industry's immediate steps on the journey of transformation:

INTERVENTIONS	AMOUNT (RM)
1. Increased premium cane payment for black small scale sugar cane farmers	60
2. Establishment of a premium cane price for black sugar cane farmers who do not qualify as small scale farmers	35
3. Subsidisation of black small scale sugar cane farmers transport costs	20
4. Access to seed cane of appropriate cane varieties for black small scale sugar cane farmers	20
5. Subsidisation of black small scale sugar cane farmers membership levies	7
6. Institutional capacity building funding for emerging black sugar cane farmer associations, accreditation of the Cane Farmers Federation	10
7. Allocate additional funding for the development, education and training of black sugar cane farmers	10
8. Establishment of sugar industry job creation accelerator program for black youth and women	10
Total funding committed per annum	**172**

SASA also indicated that the Parliamentary Portfolio Committee on Trade and Industry engaged with the industry in terms of these initiatives. According to SASA, the reciprocity initiatives would be guided by the following broad principles, which will be targeted in areas in which sugarcane is grown and processed, for the benefit of black industry stakeholders. SASA aims to:

- Drive meaningful and sustainable transformation in the sugar industry;
- Advance the national agenda for rural agricultural growth and development through the expansion of areas under sugarcane;
- Address diseconomies of scale between small-scale black growers and large-scale growers;
- Accelerate land transfer to black growers;
- Sustain current employment and create new jobs;
- Promote productive and sustainable farming and business practises;
- Fast-track equitable economic participation in the sugar value chain;
- Target youth development and ignite entrepreneurial enterprises in rural areas.

SASA submitted that these initiatives can be administered by SASA using current sugar industry legislation or in the form of a Sugar Industry Trust. Seven specific transformation initiatives are summarised below:

- **Initiative 1: Premium Payment to Black Growers Delivering Cane** – this initiative is based on the principle of black growers receiving a meaningful increase in the premium to the price determined for recoverable value (RV) for all cane growers. The initiative is aimed at bringing cane payments to black growers to a minimum price representative of only the local market price for sugar and it includes the following:
  a) **The augmentation of the Supplementary Payment Fund** - This fund is currently in operation, and would be augmented to increase the annual value paid to small-scale growers for the delivery of cane.
  b) **A Top-Up Cane Payment Fund for Small-Scale Growers** - This is a new fund that would make payments to small-scale growers, based on tons of cane delivered throughout the season.
  c) **Top-Up Cane Payment Fund for Black Land Reform Growers and New Freehold Growers** - This is a new fund, which would make payments on a rateable basis to black land reform and new freehold growers, based on tons of cane delivered throughout the season.

SASA submitted that a number of initiatives would be most effectively administered through a dedicated Sugar Industry Trust formed to adjudicate projects and distribute funding in support of transformation initiatives. According to SASA the Sugar Industry Trust would be a separate legal entity, governed by a Board of Trustees comprising of independent non-industry members, industry members and government. Industry and non-industry representation on the Board would be determined by SASA Council. The Department of Trade and Industry and the Economic Development Department would nominate board members representing government.

Funding would be provided by SASA, from levies charged to all growers and all millers. The Trust would be required to adhere to the highest standards of governance. The Board would have decision-making power independent of SASA Council. SASA also submitted that the Board will have the option of having the administrative support provided by SASA. All technical evaluation support to assess proposed projects would be outsourced.

It is envisaged that funding would be aimed at projects proposed in the following broad categories of initiatives:

- **Initiative 2 – Seed Capital to Support Cane Establishment and Expansion of Cane Areas** - Start-up funding to support the re-establishment of areas that have gone out of cane production due to poor economic or other circumstances and funding to support expansion of new cane areas.
- **Initiative 3 – Seed Capital for Land Acquisition to complement the land reform programme, especially land restitution** - Start-up funding and initial financing support for projects that resulted in the transfer of sugar cane land to black farmers.
- **Initiative 4 – Seed Capital for Value chain participation initiatives in agro-processing and downstream activities** - financial support for projects resulting in investment in value chain activities and agro-processing facilities.
- **Initiative 5 - Development finance for Small-Scale Black Growers and Land Reform Growers** - to provide working capital to black small-scale and land reform growers at a zero per cent interest rate. Existing industry development finance entities would be considered in the implementation of this initiative.
- **Initiative 6 - Youth development and rural enterprise development** – to focus on skills needed in the sugarcane growing and agro-processing industries, and on small business incubator programmes with mentorship.
- **Initiative 7 - Other Small-Scale Grower and Black Grower Related Subsidies** - this initiative focus on:
  - a) Solving small-scale grower diseconomies of scale and cost challenges, including growing, agricultural input, harvesting and transport costs;
  - b) Business rescue analysis and options for distressed black growers;
  - c) Natural disaster relief and mitigation funding; and
  - d) Other approved initiatives.

According to SASA, the availability of funding for reciprocity projects will depend on the industry's ability to increase revenue through improved local market sales by raising prices to cover costs. Notwithstanding the level of the DBRP, the level of the world sugar prices and the maximum duty that can be gazetted becomes particularly important.

SASA submitted that due to the constraints laid out above, the industry has committed a minimum of R1 billion to reciprocity projects over a three year period. The value would be evenly split in each of the three years, unless compelling circumstances resulted in a different distribution of funding between the three years (for example, if the best execution of a particular project required additional funding to be made available in year 1 of the project, and less in year 2). SASA submitted that the industry will continue to work expeditiously on and finalise a mechanism for additional funding, over and above the minimum commitment of R1 billion over three years outlined above, should the bound rate cease to impact on import parity and cost recovery. In this way, as the industry was able to better meet costs of production, so additional funding in excess of the minimum commitment would be made available and channelled to reciprocity initiatives.

At the Special Commission's meeting held on 26 June 2018, SASA, in its oral presentation indicated that it had already spent R172m in respect of certain commitments and that it will continue with its commitments of R1 billion over three years even if the increase in the DBRP does not reach the requested level of US$856/ton.

13. TARIFF DETERMINATION

The Commission considered an appropriate tariff determination methodology, which takes into account the average London No. 5 world sugar price over a period of time, distortion as well as transport factors, in the calculation of the applicable level of the DBRP.

The Commission, taking into consideration that a typical sugar commodity cycle is two years, concluded that a 6 year period for determining the DBRP is appropriate as it recognizes the significant changes in the world sugar prices over this period, which encompasses normal and drought periods. The 6 year period is sufficiently recent to make it meaningful as it takes proper account of recent factors which have a bearing on the cost and price of sugar. These factors include the weather, input prices such as fuel and fertilizer as well as trading practices.

The distortion factor was formulated based on LMC data, as the difference between the average cost of producing raw sugar between Brazil and South Africa over a 6 year period, expressed as a percentage of South African raw sugar cost, which amounted to 29 per cent combined with the weighted average of export losses for the period 2012/13 – 2017/18, which amounted to 11 per cent, on average, resulting in a total distortion factor of 40 per cent. This calculation takes account of structural changes in the global sugar market in terms of alternative markets for sugar i.e. highly subsidised ethanol market, cost differentials as well as domestic policy interventions i.e. Sugar Act.

The Commission also considered that over and above tariff protection, the local industry also benefitted from natural protection, in that sugar is an expensive product to transport. It was found that ocean transportation costs constitute, on average, an additional protection of approximately US$31/ton.

The calculation of the DBRP based on the 6 year average annual London No. 5 sugar settlement price for the period 2011/12 to 2016/17, amounted to US$507/ton. To create a fair trading environment, a distortion factor of 40 per cent (US$204/ton) was added and transport cost of US$31/ton was deducted, which resulted in a DBRP level of US$680/ton.

The Commission determined that this DBRP level would cover the industry's production cost but when the proposed DBRP level is compared to total costs, only SASA's request covers the industry's total cost.

The Commission further considered information submitted by SAFDA, which indicated that a DBRP level of US$680/ton meets the profitability level of small scale farmers.

14. PRICE IMPACT

The National Agricultural Marketing Council (NAMC) was requested to conduct an impact analysis in terms of the price effect of the current DBRP and variable tariff formula on sugar production by a general equilibrium analysis (i.e. recursive CGE model) which is solved on GEMPACK solution software. The model database was modified to contain a detailed treatment of the primary agriculture, food, and beverage industries.

The Commission in its analysis found that sugar prices have been volatile over the past but, based on the National Agricultural Marketing Council ("NAMC") impact analysis report in terms of the price effect of various levels of the DBRP, NAMC found that the impact of an increase in the sugar import tariff would reduce the level of imports, increase local production and have a slight impact on the local price of sugar over the long term. The Genesis Report (2013) also found that although sugar prices have been volatile over the past, its impact on food inflation in terms of the consumer price increases in sugar-containing products constitutes a relatively small proportion.

15. FINDINGS

In arriving at its recommendations and in light of the foregoing, the Commission considered the information at its disposal and the comments received. The Commission also took the following factors into account:

- There are a number of challenges with the methodology advocated by the applicant given that the methodology applied differs significantly from the existing variable tariff formula for sugar. Spiralling cost and price increases and investment returns would be automatically accommodated through a higher tariff on imports. In effect the industry would be setting the tariff. As indicated in the past, such a system would not be conducive to competitiveness and would have a significant inherent cost-raising impact downstream with unintended consequences for food security. It will also influence the tariff-setting process and methodology for other commodities such as wheat and maize.

- According to information at the Commission's disposal, the domestic sugar industry's production volumes declined between 2013/14 and 2016/17. South African sugar producers accounted for most of the declines in the SACU industry's production volumes. In the 2017/2018 season, there were some recoveries in the level of production.

- Since the 2014/15 season, domestic sugar producers have been consistently experiencing losses.

- On average, the South African sugar producers' production costs have increased, with the main cost drivers being processing material, inclusive of fuel and fertiliser and direct and indirect labour.

- On average, imports of sugar into the SACU region increased significantly by

77 per cent for the period 2014/15 to 2017/18. The increase in the level of sugar imports into the SACU region can be attributed to the constant decline in the world average price of sugar, particularly during the period 2016/17 and 2017/2018. Between 2016/17 and 2017/18, the world price of sugar declined by approximately 23 per cent.

- The majority of low-priced imports into the SACU region originated from Brazil. However, since 2016/17 season, import data reflected a high level of imports from countries that only refine raw sugar i.e. imports from the UAE, which have increased significantly, from 2016/17 to 2017/2018.

- The Commission found that the South African sugar selling environment is highly competitive with South African millers competing with duty free Eswatini and other SADC imports, as well as duty-paid imports from other regions. Since 2016/17 marketing period, importers have increased their market share from approximately 5 per cent to approximately 23 per cent in 2017/2018. On the other hand, SACU sugar producers' market share has since declined from 95 per cent to approximately 77 per cent during the same period.

- It was found that a DBRP level of US$680/ton would cover the industry's production cost and if administration, marketing and distributions costs, which are also incurred by importers, are excluded from total costs, this level provides sufficient protection to the domestic sugar industry.

- The Commission further considered information submitted by SAFDA, which indicated that a DBRP level of US$680/ton would also enable small scale farmers to farm profitably.

- The Commission considered comments from all interested parties, which consisted of 13 pre-publication comments and 57 post-publication comments.

- The Commission in its analysis found that sugar prices have been volatile over the past but, based on the National Agricultural Marketing Council ("NAMC") impact analysis report in terms of the price effect of various levels of the DBRP, NAMC found that the impact of an increase in the sugar import tariff would reduce the level of imports, increase local production and have a slight impact on the local price of sugar over the long term. The Genesis Report (2013) also found that although sugar prices have been volatile over the past, its impact on food inflation in terms of the consumer price increases in sugar-containing products constitutes a relatively small proportion.

- SASA's oral presentation at the Special Commission meeting held on 26 June 2018, confirmed that SASA had already spent R172m in respect of certain commitments and that it will continue with its commitments of R1 billion over three years even if the increase in the DBRP does not reach the requested level of US$856/ton.

- The Commission is of the view that tariff protection must be complemented by addressing competitiveness constraints in sugar production. A long term drive towards improved productivity remains critical. A holistic view of the industry's long term prospects is also required. This includes a number of reforms related to its revitalisation that must provide the critical incentives for reinvestment by the growers and the processors. It also includes alternative uses of sugarcane for energy and potentially biofuels.

- In order to address the aforementioned, a Sugar Industry Task Team was established between government and the private sector comprising of representatives from the Beverage Industry, Retailers, SASA, small holder farmers, small manufacturers and the Industrial Development Corporation (IDC) with a mandate to seek rapid solutions to the challenges facing the sugar industry focusing on short and medium to long term measures.

16. RECOMMENDATION

In view of the above, the Commission decided that the domestic Dollar-Based Reference Price for sugar be increased from the current US$566/ton to US$680/ton based on the 6-year average London No. 5 sugar settlement price of US$507/ton, plus an adjustment for the distortion factor evident in the domestic and international sugar market of 40 per cent, less the average ocean transport cost of sugar to a South African port of US$31/ton.

It is further proposed that the DBRP be reviewed after a period of 3 years, which will ensure that recent developments are taken into account and enable the Commission to determine the impact of the proposed increase in the DBRP on employment, production and investment in the sector, as well as its effect on downstream industries and consumers.

The initial duty on sugar will be calculated as the difference between the DBRP of US$680/ton and the price of sugar on 20 June 2018, which amounted to US$347.38/ton at an exchange rate of R13.7675 to the US$1.00 adjusted for price differentials between South Africa and its most important trading partners using the published Real Effective Rand Exchange Rate Index as follows:

REFERENCE PRICE	
Dollar-based reference price	US$680/ton
Minus: Average London No. 5 settlement price of sugar on 20 June 2018	US$347.38/ton
Dollar duty on sugar	US$332.63/ton
Rand duty on sugar before adjustment	R 4 579.41/ton
Adjusted with the Real Effective Exchange Rate Index (March 2018)	R 4 579.41 x 0.9161 = R 4 195.20/ton
Rand duty on sugar	419.52c/kg (equivalent to 87.72% *ad valorem)*

NB: numbers may vary slightly due to rounding

Adjustments to the level of protection will be based on quantum movements in the world reference price as follows:

The difference between the 20 trading day moving average of the London No. 5 settlement price and the established reference price for sugar will be calculated daily. If the 20 trading day moving average of the London No. 5 settlement price shows a variance of more than US$20/ton from the previous trigger level for 20 consecutive trading days, a new duty will be calculated. The resulting Dollar specific duty is converted to Rand according to the Rand/Dollar exchange rate prevailing on the day that the adjustment is triggered and subsequently adjusted with the latest available Real Effective Exchange Rate Index as published by the South African Reserve Bank.

The levels of duty for sugar will be capped at the bound rate of 105 per cent *ad valorem*.