REPORT NO. 308

INCREASE IN THE DOLLAR BASED REFERENCE PRICE OF SUGAR FROM THE EXISTING US$330/TON TO US$358/TON

The International Trade Administration Commission (ITAC) of South Africa herewith presents **Report No. 308: Increase in the dollar based reference price of sugar from the existing US$330/ton to US$358/ton.**

....

Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA
..21/.../...07../ **2009**

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 308

INCREASE IN THE DOLLAR BASED REFERENCE PRICE OF SUGAR FROM THE EXISTING US$330/TON TO US$358/TON.

Synopsis

The South African Sugar Association (SASA), applied for an increase in the dollar-based reference price for sugar from the existing US$330/ton to US$400/ton. Subsequently, the Swaziland Sugar Association (SSA) also applied for an increase in the dollar-based reference price for sugar from the existing US$330/ton to US$420/ton.

The application by SASA was published in the Government Gazette for comment from interested parties. Comments were received from various stakeholders including the Department of Agriculture, Forestry and Fisheries and the National Agricultural Marketing Council, who were in support of the application. Sugar packaging companies in Botswana and Namibia as well as South African downstream importers and South African industrial users of sugar objected to the application mainly citing the cost-raising effect downstream.

In order to enhance the consultative process and transparency, the Commission initiated the formation of a task team comprising all relevant stakeholders to collate and submit information to the Commission.

The Commission considered the sugar industry to be very important to the economies of South Africa and Swaziland due to its substantial direct and indirect contribution to the GDP and its linkages to other sectors.

The Commission considered that South Africa and Swaziland, the only sugar producing countries in SACU, are self sufficient in sugar production and export excess production. This is a latent source of price pressure. In addition, the region has competition legislation that prevents market sharing arrangements. A second source of pressure is imported sugar from major sugar producing countries such as Brazil. A third source is sugar inflows under the SADC Sugar Agreement.

The South African and Swaziland sugar industries are important providers of employment in rural farmland areas.

The Commission further evaluated the competitive position of the SA milling companies, which were analysed and compared to profits that the companies are making as reflected in their annual financial statements. From the analysis it emerged that the SA milling companies are making a majority of their profits in other African countries including Malawi, Zambia, Tanzania and Mozambique, where they have invested in sugar cane growing and milling due to the preferential access to premium markets that these countries enjoy.

The Commission considered the cost-raising effect of increasing the dollar-based reference price for downstream users but found that the use of sugar as feedstock for generating or manufacturing renewable energy sources has led to an increased international demand for sugar that resulted in higher world sugar prices and a diminished possibility of the formula triggering a duty.

The Commission decided to recommend an increase in the Dollar-based reference price for sugar from US$330 per ton to US$358 per ton based on the 10-year average London No. 5 price of sugar of US$256 per ton plus an adjustment for the distortion factor evident in the international sugar market as published in the LMC International Report 2008 (10-year average) amounting to US$148 per ton, less the average transport cost of sugar to a South African port of US$46 per ton.

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 world reference price and the established domestic reference price for sugar will be calculated daily. If the 20 trading day moving average of the No. 5 settlement world reference 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 duty will be converted to Rand according to the Rand/Dollar exchange rate prevailing on the day that the adjustment is triggered.

INTRODUCTION

The South African Sugar Association (SASA), hereinafter referred to as the applicant, applied for an increase in the dollar-based reference price for sugar from the existing $330/ton to $400/ton.

SASA's request is premised on a purported approximate 60% distortion in the international sugar price. SASA referred to a study conducted by Landell Millls Commodity Studies, Oxford, England (LMC International Report 2008 data) showing a 58% distortion over the recent 10-year period between the annual weighted cost of sugar production and the actual average world sugar price over the same 10-year period. This distortion factor should be added to the average long-term world reference price of US$256 per ton. However, SASA did not explicitly make provision for an adjustment to the transport cost of sugar, also a critical element of the formula.

Subsequent to SASA's application, the Swaziland Sugar Association (SSA) also requested an increase in the dollar-based reference price for sugar but from the existing US$330/ton to US$420/ton, based on a restoration of protection levels to earlier higher levels, a normalisation of distortion levels, and adjustments for an increase in production costs. They also did not provide for the inclusion of any transport cost.

The main motivation for the applications by SASA & SSA is that rapidly growing low-priced sugar imports, albeit from a low base, are replacing locally produced sugar on the domestic market to the extent that it threatens the sustainability of the SACU sugar industry.

SA doesn't have preferential access to premium markets i.e. the EU or USA as is the case with Swaziland or other SADC countries and therefore depends on a higher price in the domestic market to sustain operations.

The application was published in the Government Gazette on 1 August 2008 for comment by interested parties.

In order to enhance the consultative process and transparency, the Commission initiated the formation of a task team comprising all relevant stakeholders to collate and submit information to the Commission.

The tariff position for sugar is as shown in Table 1 below. The existing variable tariff formula has triggered a specific duty currently at free of duty.

Table 1: Tariff position for sugar

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
17.01		Cane or Beet sugar and chemically pure sucrose in solid form					
	1701.11	Cane sugar	Kg	Free	Free	Free	Free
	1701.12	Beet sugar	Kg	Free	Free	Free	Free
	1701.91	Containing added flavoring or coloring matter	Kg	Free	Free	Free	Free
	1701.99	Other	Kg	Free	Free	Free	Free

Source: SARS

The WTO bound rate for South African sugar is 105%.

In terms of South Africa's WTO minimum market obligations for sugar, it has to import 60 037 tons of sugar at a duty not higher than 20% of the bound rate of sugar. South Africa imports more than its minimum market access quota free of duty from Swaziland. Swaziland is classified as a least developed country and as such is not liable for minimum market access obligations.

BACKGROUND TO THE VARIABLE TARIFF FORMULA

The existing variable tariff formula for sugar was introduced in September 2000 at the recommendation of the Board on Tariffs and Trade. This particular dispensation was deemed to better suit the circumstances surrounding the production and trade of sugar than the normal *ad valorem* import duties that are in place for most other products. The reason for this was that swift reaction is required due to the high frequency of the peaks and troughs evident in the price cycle of this commodity. The formula also accommodates exchange rate fluctuations.

The variable tariff formula operates on the premise that South African domestic prices should be equal to a notional long-term world reference price after adjustment for transport cost and for the effects of interventionist policies followed by some other major sugar producing countries.

In making its recommendations, the Board concluded that pricing discipline on the domestic sugar market should be imposed by import parity pricing rather than the statutory maintained pricing arrangement that prevailed then. It found that a dollar-based reference price system providing for protection against disruptively low prices as a consequence of interventionist policies applied by some major sugar producing countries would maintain exposure to international market conditions while at the same time protecting the industry against disruptive competition.

The Board considered that the then average long-term (10 year average) international price for sugar on the London sugar exchange of US$300/ton was distorted to such an extent that it could not be accepted as a fair reflection of a normal world price for sugar. Guided by the results of various studies regarding the effects of market intervention on the price for sugar, the Board concluded that in order to establish a fair benchmark for a sugar pricing model, the long-term average price for sugar should be adjusted upwards by 20 per cent or US$60 per ton. The Board considered that the industry benefits from natural or geographic protection in that sugar is an expensive product to transport. It was found that transportation costs add an additional protection of between US$20 to US$70 per ton to tariff protection (at 1999 prices). In view of the above, the Board recommended a dollar-based reference price system in terms of which the reference price for sugar is the long-term world average price calculated at US$330 per ton after adjustments to provide for an average transport cost of US$30 per ton to allow for the natural or geographical protection that South African producers enjoy and the suppressing effects of interventionist policies in some major sugar-producing countries.

Protection for the industry was then calculated as the difference between the reference price of US$330/ton and the reigning moving average London No. 5 price where the price is the 20-day moving average daily settlement price for No.5 White Sugar as traded on the London International Financial Futures and Options Exchange. Adjustments to the tariff are triggered when the 20-day moving average of the London No.5 price shows a variance of more than

US$20/ton for 20 consecutive trading days from the London No.5 price at which the previous adjustment was triggered. The amount of the difference is converted to Rand at the R/US$ exchange on the day an adjustment in the tariff is triggered. The sugar industry therefore enjoys tariff protection if the international sugar price dips below US$330 per ton.

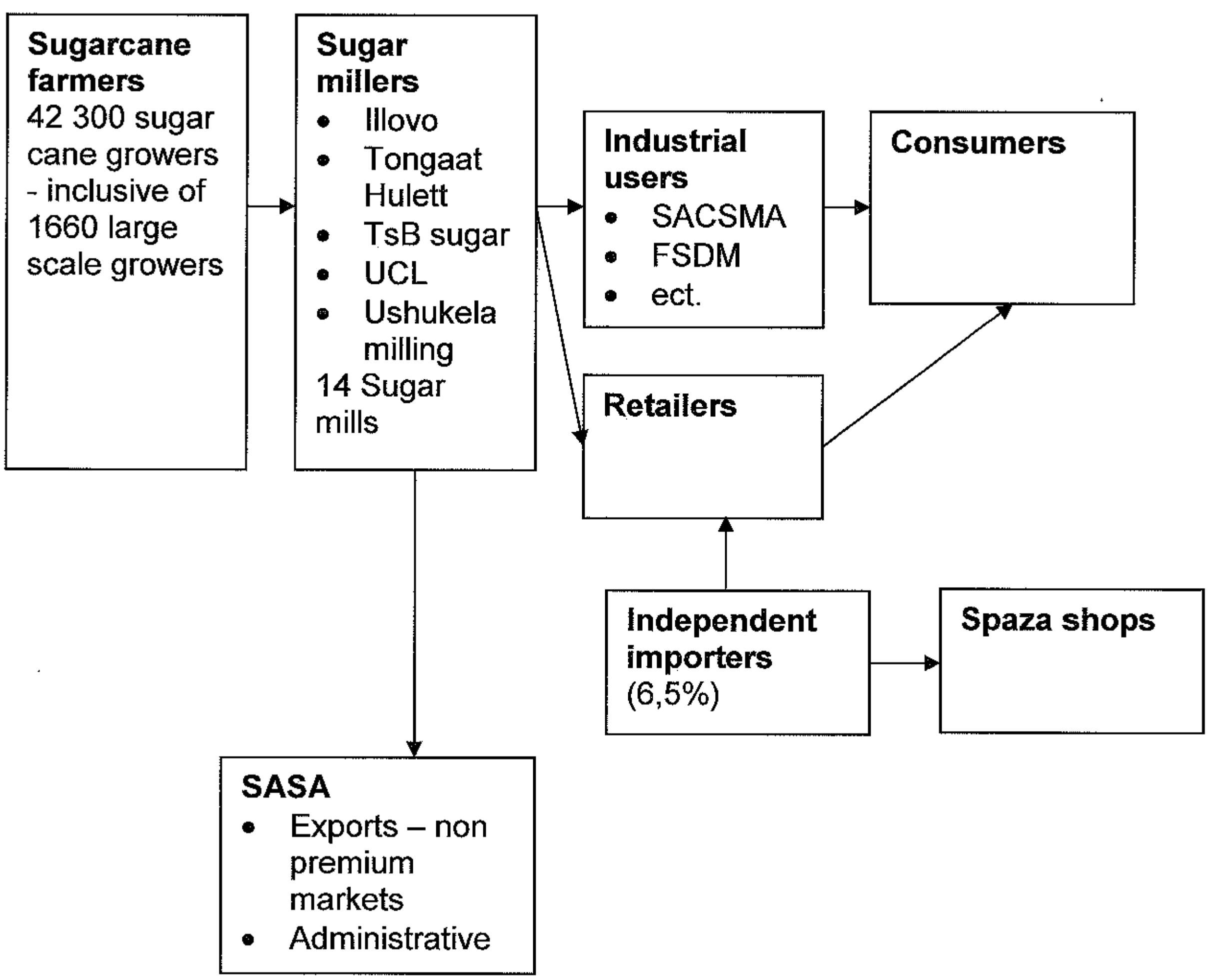
The customs duty for sugar is reflected in Part 1 of Schedule No.1 in the Customs Tariff as a variable specific duty.

INDUSTRY AND MARKET

(i) The value chain

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

Figure 1



South African sugar is produced from sugar cane by approximately 42 300 registered sugarcane growers who annually produce on average 22 million tons of sugarcane from 14 mill supply areas. The majority are small-scale growers, producing 9.35% of the total crop. With the growth in economic development and empowerment of previously disadvantaged people, a growing number of black farmers are continuing to enter sugarcane agriculture.

There are approximately 1 660 large-scale growers (inclusive of the 358 black emerging farmers) who produce 82.55% of total sugarcane production. Milling companies with their own sugar estates produce 8.1% of the crop.

This percentage of the total crop produced by these miller-cum-planter estates has decreased in recent years and is likely to continue to do so as the companies promote more black farming development.

On average, the South African sugar industry processes 22 million tons of cane in a season resulting in average sugar production of 2,5 million tons.

Three of the South African sugar mills are known as "white end" mills and produce their own refined sugar. Raw sugar produced by TSB Sugar RSA Ltd is exported via the sugar terminal in Maputo. Raw sugar produced at the remaining mills is routed to Durban where it is either refined at the central refinery of Tongaat Hulett Sugar Ltd or stored at the South African Sugar Association Sugar Terminal prior to export.

The members of the South African Sugar Millers' Association are:

- **Illovo Sugar Ltd** which operates six sugar mills in South Africa, two of which have refineries and three have packaging plants. It has three cane growing estates and produces a variety of downstream products.
- Illovo derives all its revenue and profits from sugar and associated activities. It is the only South African sugar miller that derives all its profits from cane growing, sugar and related products.
- Illovo's investment drive is focused on investments in SADC, mainly in Malawi, Zambia, Swaziland, Tanzania and Mozambique.
- Higher profit margins can be attained in countries such as Malawi and Zambia which are among the lowest cost producers in the world with high growth yields, which makes these countries more attractive for investment. Sugar cane in these countries is also supplied from irrigated land, which reduces risk. Further, these countries by virtue of being Least Developed Countries (LDC) enjoy preferential access into the EU at premium prices.

- **Tongaat-Hulett Sugar Ltd** which operates four sugar mills in South Africa, a central refinery in Durban, various sugar estates and an animal feeds operation. Approximately half of Tongaat-Hulett's operating profit was derived from sugar in the past year. The remaining profit is derived from starches (21%) and property development (23%). Tongaat-Hulett is also expanding its sugar capacity in countries like Mozambique.

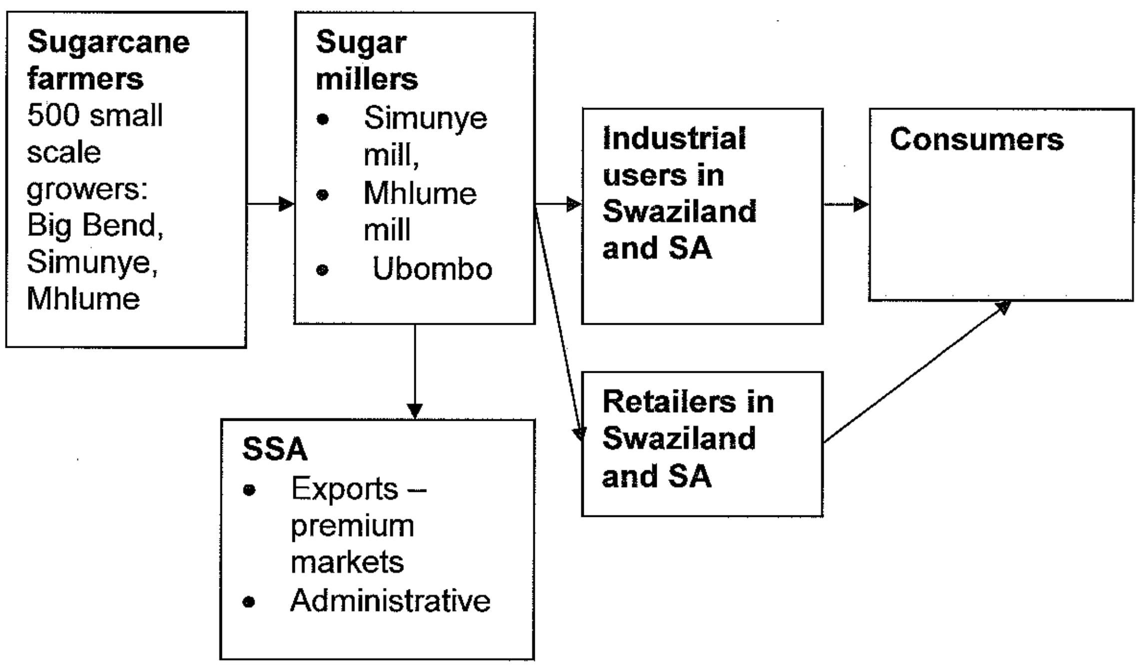
- **TSB Sugar RSA Ltd** which operates two sugar mills, a refinery and packaging plant, sugar estates, cane and sugar transport, and an animal feed division.

- **UCL Company Ltd** which operates a sugar mill, a wattle extract factory and adhesive factory, a maize mill, a saw mill, a number of mixed farms, a payroll division, a trading division and an animal feed plant.

- **Ushukela Milling (Pty) Ltd, a** black empowerment grouping now owns The Gledhow Mill which it bought from Illovo Sugar Limited.

The Swaziland sugar value chain is presented in Figure 2 below:

Figure 2:



Swaziland, which is the only other sugar producer in the SACU, has three main sugar cane growers, 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. Presently, the industry has about 500 smallscale sugarcane growers, which were virtually non-existent in the early 1990s.

(ii) The Market

The total quantity of SACU sugar sales for the 2008/09 season is estimated to be 1 914 980 tons. The SACU sugar market is shared by Swaziland and South African sugar producers according to the industry agreement of March 1998 between the Swaziland and South African sugar industries. The agreement is aimed at establishing fair market access to producers through the maintenance of equal export obligations. In terms of this agreement, South Africa and Swaziland share the SACU market in an 81.3 : 18.7 ratio.

The SADC Sugar Cooperation Agreement consists of two components, namely market access and areas of cooperation. The market access component allows non-SACU SADC surplus sugar producing countries the opportunity to share in the growth in the SACU market. The cooperation component enables cooperation in the areas of research, training, small holder development, infrastructure (including export facilities), customs administration and developments in the rest of the world, with the ultimate objective of creating an integrated and internationally competitive SADC sugar industry.

Swaziland sugar is sold in four different markets namely in the SACU (52%), EU (28%), US (3%) and the rest (17%) is sold on the world market. Swaziland accesses the EU market under the Sugar Protocol (SP) and EU regulations on Complementary Quantity (CQ). The latter replaced what used to be known as Special Preferential Sugar.

The US market is accessed by Swaziland under the tariff rate quota (TRQ) system governed by the US Sugar Programme under Farm Bill 2002. The world market is the residual market which takes all the remaining sugar.

SACU is a sugar surplus region. This in itself is a latent source of price pressure. In addition, the region has competition legislation that prevents market sharing arrangements. A second source of pressure is imported sugar from Brazil and India. A third source is sugar inflows under the SADC Sugar Agreement.

The Swaziland Sugar Association submitted that there is also an upward pressure on major cost items such as steel, coal, electricity, fuel and labour.

The South African sugar industry as a developing country does not enjoy preferential access to premium markets.

Import statistics of sugar for the period 2004 – 2008 is reflected in Table 2 below:

Table 2. Import Statistics of sugar

	Import volume tons	**Imports as a percentage of total SACU production**	**Import price per kg**
Year 2004	38 822	1.74%	230c/kg
Year 2005	39 542	1.58%	202c/kg
Year 2006	31 083	1.4%	274c/kg
Year 2007	105 243	4.6%	250c/kg
Year 2008	159 170	6.5%	300c/kg

Source: SARS

From the above, it can be seen that imports decreased from 2004 to 2006 by 25% but increased sharply by 239% from 2006 to 2007, and further increased by 51% for the period 2007 to 2008. Zero sugar imports in major sugar producing countries are not an uncommon phenomenon in the sugar industry. The EU offers preferential import opportunities for a select group of sugar producers from developing countries. Australia imports less than 1 per cent of its consumption requirements. South Africa is the only developing country that offers preferential import opportunities to surplus producers of sugar in terms of the SADC Free Trade Agreement.

Due to the very nature of harvesting sugar, it is imperative that there is a close relationship between sugar growers and sugar millers. This relationship is administered by Associations who are also responsible for exporting all excess sugar. Sugar destined for the domestic market is sold to industrial users and retailers who in turn sell to consumers. Independent importers repackage imported sugar and supply mainly informal markets (Spaza shops) and smaller confectionery manufacturers.

(iii) Employment and Investment

The South African and Swaziland sugar industries provide employment to approximately 129 478 and 10 000 employees respectively, which renders the industry an important provider of employment in rural farmland areas.

There are no current or foreseeable intentions to further invest in the production of sugar in South Africa. The existing milling capacity is fully utilized in the processing of the quantity of sugarcane which is produced by the cane-growing sector. New investment could arise from the production of new products such as ethanol and/or co-generation of electricity. Expansion into new cane growing areas will invariably result from these developments. However should current economic conditions persist, disinvestment in cane farming is expected.

In Swaziland major expansions have only happened since 2002 when the Komati Downstream Development Project (KDDP) designated some 7 400 hectares for development to sugarcane by small sugarcane growers in the North. To date, over 3 000 hectares have been developed. Implementation of the balance has progressed cautiously due to a re-evaluation of the viability of some of the schemes in the face of cost escalations and reducing prices. Another expansion programme has started in the South where the Lower Usuthu Smallholder Irrigation Project (LUSIP) intends developing about 11 500 ha of land, most of it for SSG schemes.

iv) Legislation and Agreements that govern the SACU Sugar Industry

The SA sugar industry is governed by the Sugar Act of 1978 and Sugar Industry Agreement (SIA) of 1994. The Sugar Act, inter alia, administers a single channel export system for South African sugar and sets a fixed proceeds sharing formula for the share of proceeds to be paid over by millers to growers calculated in terms of the recoverable value price for cane. According to the agreement for each ton of sugar sold on the local market the growers receive 63.8% and the millers 36.2% of the proceeds.

The Sugar Act is currently under review. The main objective of the review is to establish a regulatory framework for sugar production and marketing that will promote optimal competition and participation in the domestic sugar industry, whilst also recognising that some level of formal intervention is needed to allow the industry to maintain its participation in the international sugar market.

Like South Africa, Swaziland has a single channel export system for sugar administered by the Swaziland Sugar Association and, through the Act, sets a fixed proceeds sharing formula for the share of proceeds to be paid over by millers to growers. The Swaziland sugar industry allocates sucrose quotas to growers.

THE COMPETITIVE POSITION

South Africa's and Swaziland's position in terms of global ranking of the twenty lowest cost cane sugar producers on total field and factory cost, is as set out in Table 3 below:

Table 3: Lowest cost cane producers

Rank	**Total field and factory cost**
1	Brazil (Central South)
2	Zimbabwe
3	Malawi
4	**Swaziland**
5	Brazil (North East)
6	Guatemala
7	Ethiopia
8	Sudan
9	Argentina
10	Australia
11	Zambia
12	Colombia
13	El Salvador
14	Iran
15	Bolivia
16	Vietnam
17	**South Africa**
18	Nicaragua
19	India
20	Mozambique

Source: LMC International; Worldwide survey of sugar and HFCS Production Costs; 2007 Report .

As is illustrated in Table 3, Swaziland is ranked No. 4 and South Africa is ranked No. 17. South Africa has slipped from 5th place in the world rankings in the 2003/2004 season to No.17 at present.

Information regarding various production inputs in the total production cost structure of the average cane farm was sourced from CANEGROWERS' Large Scale Grower Production Cost Survey.

The survey found that a large proportion of input expenditure on imports is affected by import parity pricing. For example, 100% of chemical expenditure for weed control is on imported products. The survey also showed that cane growers import the following primary inputs, namely fertilizer, chemicals, fuel and lubricants. Cane growers import 100% of their Potassium requirements, approximately 60% of their Nitrogen requirements and 70% of their Phosphorous requirements. Nitrogen fertilizer is produced locally by SASOL and FOSKOR produces Phosphorous. The prices at which cane growers access these fertilizer products are determined by the input pricing policy of these suppliers. Fertiliser inputs are zero-rated in the Customs Tariff.

Chemicals used in sugar cane growing are wholly imported as there is no local manufacturer of herbicides or nematicides in South Africa. Diesel is also primarily imported. The cane crop is a bulky, low value crop to harvest and therefore diesel expenditure accounts for a significant proportion of total expenditure on cane transport. It is estimated that 65% of the total cane transport costs and 20% of total contractor costs are on imported diesel, steel and machinery parts.

SASA submitted that in the 2006/07 season, it was estimated that approximately 39% of total farm expenditure was on imported inputs. In the 2008/09 season it is estimated the proportion of expenditure on imported inputs would have increased to 56% of total spend.

Illovo Sugar Ltd posted an operating profit of R1,1 million on a revenue of R6,7 million for the year that ended in March 2008. As mentioned, a large proportion of their profits are generated in other African countries.

In the financial year that ended December 2008, Tongaat-Hulett Sugar Ltd posted a net operating profit for all operations of R1,1 million based on total revenue of R7,1 million. On its sugar operations it made a profit of R0,6 million on a revenue of R4,5 million. The remaining profit was derived from starches (21%) and property development (23%). Tongaat-Hulett is also expanding its sugar producing capacity in other African countries especially Mozambique.

The profitability of TSB Sugar was also favourably impacted by the prevailing high world price of sugar.

COMMENTS FROM INTERESTED PARTIES

The Department of Agriculture, Forestry and Fisheries submitted that it supports the application based on the fact that the proposed protection requested falls within South Africa's WTO commitments. There are also government interventions and support in the international sugar market. They lastly submitted that the impact of the sugar industry in the SA economy and the investment and training offered by the industry warrants support.

Comments were received from sugar packaging companies in the SACU countries who responded by objecting to the application due to the cost raising effect of increased tariff protection.

They argued that they do not grow sugar at all and therefore have to import. SADC sugar producing countries, in their opinion, often cannot supply enough sugar or their sugar is too expensive.

Several small importers also objected to an increase as they manage small companies with low profits supplying small confectionery manufacturers and informal markets. Some of the importers also submitted that they import "crystal sugar" as opposed to the more refined sugar sold by SASA. The respondents submitted that SASA does not manufacture and sell this type of sugar in the SACU market. They also argued that some of the distortions in the international market have decreased over the years and that an increase in sugar imports would limit SASA's dominance.

Comments were also received from some of the major South African industrial users of sugar who source most of their sugar requirements from SASA. The companies all commented that an increase in the dollar-based reference price for sugar would not be in the interest of the broader South African consumer market. The companies also submitted that they have to compete with, among others, an influx of finished goods made from cheaper sugar, adversely affecting their competitive position.

FINDINGS

The Commission considered the sugar industry to be very important to the economies of South Africa and Swaziland due to its substantial direct and indirect contribution to the GDP and its linkages to other sectors.

South Africa and Swaziland, the only sugar producing countries in SACU, are self-sufficient in sugar production and export excess supply. South Africa exports approximately 40% of its total production. This is a latent source of price pressure. In addition, the region has competition legislation which prevents market sharing arrangements. A second source of pressure is imported sugar from Brazil and India. A third source is sugar inflows under the SADC Sugar Agreement.

In addition, the world reference price for sugar is lower than average global production costs due to various distortions in sugar producing countries that have resulted in significant overproduction.

Imports of sugar increased sharply by 239% from 2006 to 2007, and further increased by 51% for the period 2007 to 2008 and now represent 6.5% of the SACU market.

Due to the very nature of harvesting sugar, it is imperative that there is a close relationship between sugar growers and sugar millers. This relationship is administered by Associations who are also responsible for exporting all excess sugar. Sugar destined for the domestic market is sold to industrial users and retailers who in turn sell to consumers. Independent importers repackage imported sugar and supply mainly informal markets (Spaza shops) and smaller confectionery manufacturers.

The South African and Swaziland sugar industries provide employment to approximately 129 478 and 10 000 employees respectively, which renders the industry an important provider of employment in rural farmland areas.

The competitive position of the SA milling companies were analysed and compared to the profits that the companies are making as reflected in their annual financial reports. From the analysis it emerged that the SA milling companies are making most of their profits in other African countries including, Malawi, Zambia, Tanzania and Mozambique, where they have invested in sugar cane growing and milling due to preferential access to the premium markets that these countries enjoy.

The Commission considered the cost-raising effect of increasing the dollar-based reference price for downstream users but found that the use of sugar as feedstock for generating or manufacturing renewable energy sources has led to an increased international demand for sugar that resulted in higher world sugar prices, diminishing the possibility of the formula triggering a duty.

In the light of the foregoing, the Commission found adequate justification for amending the existing sugar pricing variable tariff formula as follows:

The world price should be adjusted from the previous 1987/88-1998/99 average to the 1998/99-2007/08 average price. The information in Table 4. below details the London No. 5 average price for the 10-year period 1998-2008.

Table 4: Average London No. 5 sugar price

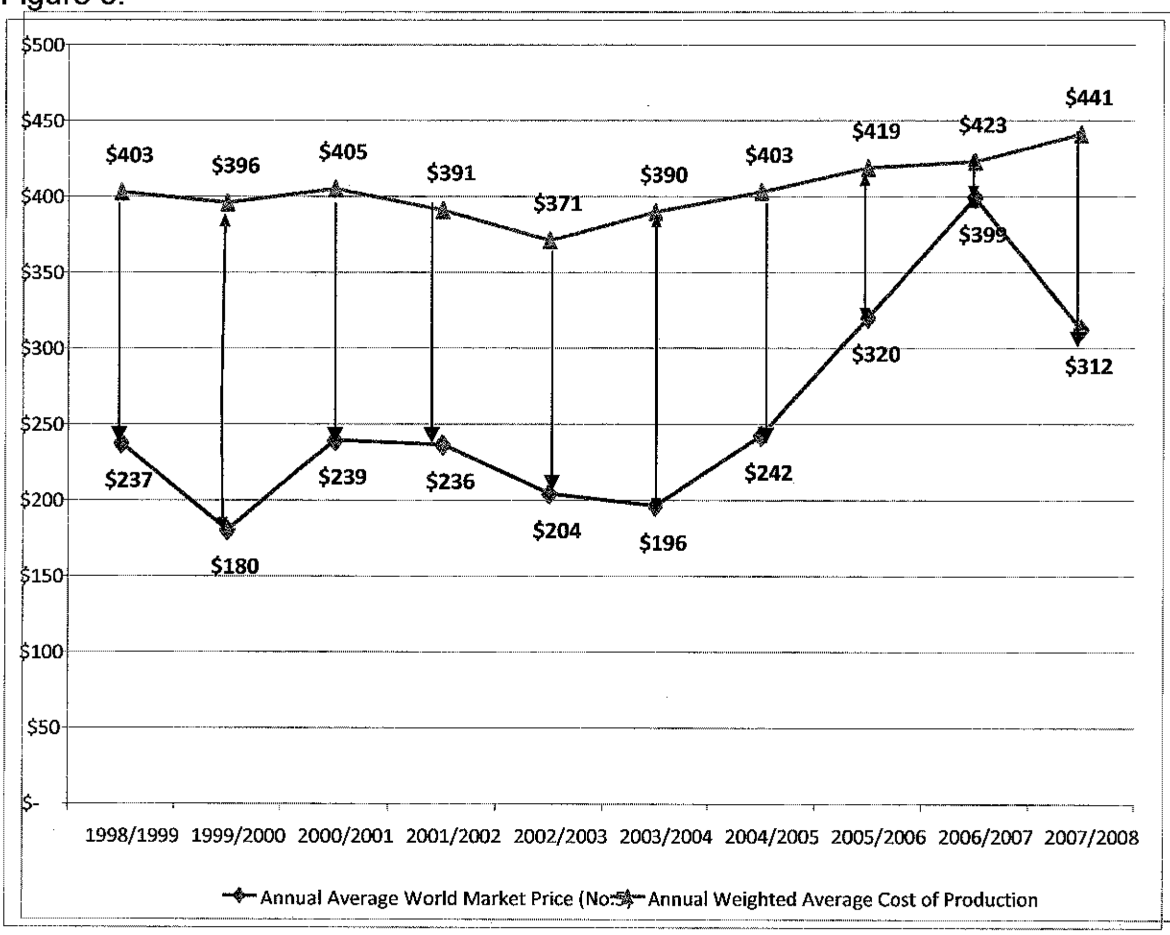
	Annual Average London No.5 daily settlement price for sugar
1998/99	US$237
1999/00	US$180
2000/01	US$239
2001/02	US$236
2002/03	US$204
2003/04	US$196
2004/05	US$242
2005/06	US$320
2006/07	US$399
2007/08	US$312

The average for the last 10-year period is US$256/ton.

The Commission decided to recommend a larger adjustment for the distortion factor than what was recommended by the BTT in 2000. The Commission based its decision on a rationale of measuring the difference between the long term (10-year) weighted average cost of producing sugar (for all sugar producing countries) and the actual average world sugar price over the same 10-year period.

Figure 3 below shows the difference between the annual weighted cost of sugar production according to the latest survey of the cost of production of all sugar producing countries conducted by Landell Millls Commodity Studies, Oxford, England (LMC International Report 2008 data) and the actual world sugar price.

Figure 3:



As can be seen from Figure 3, the world sugar price has consistently been lower than the average cost of producing sugar. The difference between the world sugar price and the average cost of sugar production can be referred to as the distortion factor. A calculation of the average distortion factor using a 10-year average yields 58%.

The Commission further decided to recommend a larger adjustment for the average transportation cost from other sugar producing countries such as Brazil, to a South African port, from the previous US$30 per ton as recommended in 2000 to US$46 per ton, mainly due to significantly higher fuel prices.

The system would deliver protection to the SACU industry when the reference price falls below US$358 per ton. Currently, world sugar prices are relatively high and no protection is needed by the SACU sugar industry.

RECOMMENDATION

In view of the above, the Commission recommends an increase in the dollar-based domestic reference price for sugar from US$330 per ton to US$358 per ton based on the 10-year London No. 5 price of sugar of US$256 per ton, plus an adjustment for the distortion factor evident in the international sugar market of US$148 per ton, less the average transport cost of sugar of US$46 per ton.

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 world reference price and the established domestic reference price for sugar will be calculated daily. If the 20 trading day moving average of the No. 5 settlement world reference 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 duty will be converted to Rand according to the Rand/Dollar exchange rate prevailing on the day that the adjustment is triggered.

(5/2008)