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Briefing Note 2: Progress on the Sugar Master Plan

It has been almost four years since the relaunch of industrial policy to focus on stand-alone industry master plans. This briefing note tracks the progress of the sugar plan, signed by stakeholders in November 2020, using published information.

Sugar producers have complained for years of a crisis, as the hoped-for boom in exports after the transition to democracy did not emerge while imports, mostly from eSwatini, have soared. The number of registered smallholders has declined by over half in the past 20 years, with even fewer actually producing sugar cane. The industry lost two of its 14 mills during the pandemic, as Tongaat Hulett mothballed the Darnall Sugar Mill and Illovo suspended its operations at Umzimkulu.

In this context, the master plan brought together stakeholders to pinpoint choke points and identify specific areas for intervention. Ten task teams were created to address priority issues.

Sugar is only valuable if it can be processed into food or drink, whether in homes or factories. Between 2002 and 2022, however, imports of both sugar and sweets climbed dramatically, with the bulk of imports coming from eSwatini. Sugar imports multiplied nearly 60 times, from US$5 million to US$290 million, with US$260 imported from eSwatini. Imports of sweets climbed nearly tenfold, from US$7 million to US$67 million, again mostly from eSwatini. Imports of chocolate products rose from US$6 million to US$116 million. In this case, virtually all the increase resulted from duty-free imports from the European Union.

In this context, the master plan focuses heavily on expanding domestic and international demand for both sugar and downstream confectionary products. To that end, it has promoted various "buy local" efforts. Under SA Canegrowers "home sweet home" campaign, a number of retailers and industrial users have committed to producing 80% of sugar inputs locally. Shoprite has been playing a leading role in this effort, along with Proudly SA Living Lekker Locally Campaign support. After the Coca Cola bottlers merged, the company committed to promoting local suppliers. In addition, the Department of Trade, Industry and Competition plans to designate sugar, requiring government agencies to purchase only from local producers. This initiative has, however, been delayed because of difficulties in getting information on the amount of sugar affected.

So far local procurement is credited with a 150 000-tonne increase in sales. It is believed to have contributed to a decline in imports of raw cane sugar from 317 000 tonnes in 2020 to 291 000 tonnes in 2021.

Discussions are also underway within the South African Customs Union (SACU) to prevent destructive competitive dynamics. Since two of the main local players, Illovo Sugar and RCL Foods, have extensive sugar holdings in eSwatini, the situation is complex.

The South African Sugar Association (SASA) agreed to a voluntary price restraint for sugar sales to retailers and downstream sugar users (confectionery and beverages, etc.) Under the agreement, producers will limit price increases to headline inflation to assist downstream manufacturers to become more competitive.

The master plan is also committed to support for small business and transformation. The industry established a Small Scale Grower Premium Price Payment system for growers on communal land in historic labour-sending regions as well as farmers on freehold land, irrespective of race, who produce under 1 800 tonnes a year. The scheme provides support to counter disadvantages related to economies of scale and distance from sugar mills, which substantially increase production costs. Payments will continue at least through 2024. Other initiatives include a R1-billion Transformation Fund that has disbursed around R200 million a year since 2019/20. The fund provides grants, transport subsidies and other kinds of assistance to the almost 20 000 small black sugar growers.

The master plan has also encouraged processes to explore diversification into other crops; production of aviation fuel; sugar cane concentrate, which can replace some fruit sugar; and polyethylene and glutamic acid.

Producers argue that efforts to increase demand for local sugar are undermined by taxes that seek to reduce sugar consumption because of its negative health effects. Studies show that excessive consumption of sugar, notably in sugary drinks, can contribute to obesity and diabetes, among other diseases. For this reason, the government adopted a tax to raise the cost of sugary drinks and limit advertising. The industry recently succeeded in delaying an increase in the sugar tax by a year, from 2022 to 2023. That said, even without the tax, the push to promote healthier lifestyles has led to reduced sugar use in a variety of processed foods and drinks. Proponents argue that the cost to society of the health impacts of high sugar consumption more than offset the benefits of the industry in terms of profits, jobs and value added.