Future prospects for African sugar: sweet or sour?

by

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tralac Working Paper
No 11/2007
December 2007

This publication should be cited as: Sandrey, R. and Vink, N. 2007.
Future prospects for African sugar: sweet or sour?
tralac Working Paper No 11. [Online].
Available: www.tralac.co.za.

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Executive summary

Africa's share of global sugar production is around 5.7 percent, with a similar figure for global exports but a higher one for imports. Thus the continent is a net importer. Most of Africa's production (excluding Egypt) is concentrated in South and South Eastern countries. South Africa is the dominant regional producer and exporter, and is classified as one of the global low-cost producers.

The global sugar trading regime is complex: high protection rates in the major Organisation for Economic and Cooperation (OECD) countries on the one hand are only partially balanced by concessions to some developing countries that have preferential access deals for relatively minor quantities. Production costs have become almost irrelevant for these two groups. In the middle are the major sugar exporters trading at a global price that is artificially reduced by a combination of denied access and subsidised exports, from the European Union (EU) in particular.

Reforms in the EU sugar regime now operate on a definite timeframe. On the supply side, following an adverse World Trade Organisation (WTO) decision, EU export subsidies are to be slashed, production quotas reduced and the internal domestic prices reduced by around one-third – yet these will still be somewhere near 50 percent above the global reference price. On the market access front, the sugar import regime is to be gradually relaxed, with quota- and duty-free access from the world's poorest countries under the Everything but Arms (EBA) concession from 2009.

This creates both winners and losers amongst African producers. The losers are those that currently have preferential access (the 'haves') and will see their economic rents dissipated, while the winners are those operating almost exclusively on the global market (the 'have-nots') who will see their world export price rise. In Africa the first group is mainly Mauritius (a high cost producer) and Swaziland (a lowish cost producer). These production costs are likely to now dictate how a country fares in the sugar market. Among the losers, it is likely that Mauritius, at the extreme, will exit the sugar sector completely.

The second group (winners) is exclusively South Africa (a low cost producer), and here there is potential to see an expansion of the sector in response to enhanced global market prices. It is not, however, a forgone conclusion that this expansion will eventuate within the Republic in the face of the more competitive suppliers of Brazil and Australia in particular.

There is a third group of least developed countries (LDCs) that will have quota-and duty-free access into the EU under EBA. For Africa, these countries with reasonable supply potential are Malawi, Zambia, and possibly Zimbabwe and Sudan. Their future is basically in their own hands and depends upon their ability to increase production and exports under the new EBA regime (although we note that Zimbabwe currently does not have EBA access but is heading towards an LDC given its current economic performance).

The ‘wild card’ is the recent offer by the EU to the African, Caribbean and Pacific (ACP) countries negotiating a package of Economic Partnership Agreements (EPAs) for quota- and tariff-free access to the EU. The offer covers all products, including agricultural goods (except rice and sugar), and will apply immediately following the signing. It appears that rice and sugar will be fully liberalised in 2015, but this is a guarded offer. The only country to be excepted will be South Africa.

Finally, there appears to be limited hope in the short or medium term for multilateral sugar policy reforms. The US has consistently blocked reform attempts through Free Trade Agreements (FTAs) (with Australia a case in point), and the stalling of the Doha Round emphasises yet again the problem of special interest groups even though the current position points towards the ability of developed countries to be able to use their policy space in sensitive products to block sugar reforms. Perhaps the dog-leg of high oil prices leading to ethanol production from sugar directly and corn indirectly through artificial sweeteners may offer hope for sustained higher global sugar prices, as that is the best the African continent can hope for. This, however, has the downside of exaggerating a sugar price fall should oil prices decline and of delaying more substantive developed country reforms in the meantime.

1. Introduction

Currently some of Africa's[1] main sugar producers, although not global giants, are internationally competitive based upon their raw sugar production costs[2]. While hard to assess in a distorted sector, these competitive or potentially competitive countries seem to include DRC, Malawi, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (although big questions must be asked of Zimbabwe given its current economic melt-down in the wake of its current economic meltdown. Mauritius, previously a major sugar exporter and beneficiary of economic rents from sugar exported into the EU under preferences, is recognising that this position is becoming less tenable and higher production costs (and opportunity costs for its limited land) are leading to an adjustment away from sugar. Madagascar appears to be uncompetitive, while Angola and Mozambique are re-focusing on sugar following their emergence from protracted and costly civil wars, with their competitive position unknown but potentially competitive.

Previously the key to local success in African sugar has been access to the highly protected international markets of the EU in particular, but also the US and Japan. This was epitomised during the WTO dispute over EU sugar export subsidies, where even within the South African Customs Union (SACU), Swaziland was on the side of the EU trying to preserve its access conditions while those on the opposing side seeking justice included South Africa, a country that had no preferential access into the EU as a part of the Trade, Development and Cooperation Agreement (TDCA). Thus, vested interests relating to EU access were governing the arguments made by the different countries. To paraphrase the American author Ernest Hemingway[3], it has been to date 'to have or have not'. These relationships are changing, particularly for sugar trade into the EU.

The objective of this paper is to place African sugar production in perspective and to

[1] The title of this paper should more correctly refer to Eastern and Southern Africa. Other African countries that produce sugar but are net importers include Burkino Faso, Burundi, Chad, Mali, Rwanda, Senegal and Togo, while Central African Republic, Ethiopia and Sudan export minor quantities (LMC International, 2004). Egypt is a significant producer, but also a net importer. Sudan, which has a highly distorted sugar policy regime that stifles competition and taxes domestic production, has a large area of land available for sugar production that could be exported to the EU should the country be able to rationalise its sugar sector and capitalise upon its potential.
[2] See Section 3.3 below for an international comparison of production costs.

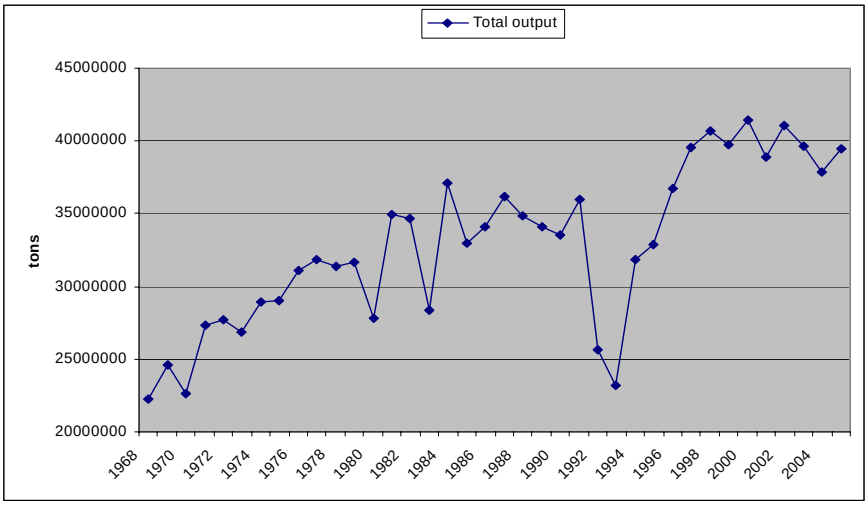
consider the future trading opportunities for the continent in a global setting dominated by reforms in the EU. It is likely that any trade agreements under the current Doha Development Agenda (DDA) of the WTO will be severely neutered in the protected OECD markets by their resorting to the so-called 'Special Product' clause that will enable them to exempt sugar from these possible policy changes. Furthermore, to date, FTAs outside of the EU that involve potential sugar importers have really only paid lip service to market access for this product[4].

2. Sugar cane production in Africa

Data on the production of sugarcane in eastern and southern Africa[5] were obtained from the FAOSTAT website (faostat.fao.org). Sugarcane production in the Southern African Development Community (SADC) region increased from below 25m tons in 1968 to around 40m tons in 2000–2005, interspersed with two to three periods where production actually declined during droughts.

Figure 1 shows the three main drought periods over the past four decades: the decline in 1980 was almost entirely due to the collapse in production in South Africa, while in 1983 and 1992/93 virtually all producers experienced a decline in production. Nevertheless, the general trend is positive.

Figure 1: Output of sugarcane in eastern and southern Africa, 1968–2005



Source: FAOSTAT, 2006

[4] Note, however, that the further reduction or abolition of EU export subsidies will place more pressure on the EU and incrementally raise the global price.

[5] Countries include Angola, DRC, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Table 1 disaggregates the data and shows sugarcane production by country. These data show the effect of war on sugarcane production in Angola (from more than 600 000 tons in the 1970s to less than 300 000 tons in the 1980s, recovering to an average of 360 000 tons in the 2000s) and Mozambique, where the increase started a decade later, but where total output is still only a sixth of the levels reached in the 1970s. Mauritius has also experienced a decline in output, while production has more than doubled in DRC, Malawi, Swaziland and Zambia. Production increases in Madagascar, South Africa, Tanzania and Zimbabwe have been smaller.

However, South Africa has been responsible for some 4.5m tons of the additional 10m tons (i.e. 45%) that have been added to regional production since the 1970s, as the country is similarly responsible for almost half of the total output.

Table 1: Sugarcane production in eastern and southern Africa (tons)

	1970s	**1980s**	**1990s**	**2000-2005**
Angola	638 155	286 000	294 500	360 000
DRC	734 250	1 091 668	1 709 055	1 580 810
Madagascar	1 291 536	1 715 489	2 073 600	2 256 698
Malawi	661 559	1 648 400	1 790 000	2 000 000
Mauritius	5 821 079	5 550 429	5 303 612	5 206 585
Mozambique	2 568 000	803 105	290 070	397 276
South Africa	17 043 561	18 518 672	18 201 730	21 470 657
Swaziland	1 834 834	3 548 664	3 828 993	3 980 767
Tanzania	1 260 824	1 330 500	1 319 180	1 642 500
Zambia	600 908	1 116 910	1 351 758	1 950 000
Zimbabwe	2 231 700	3 438 605	3 112 992	4 104 417
Total	**34 686 406**	**39 048 440**	**39 275 491**	**44 949 710**
South Africa as a % of total	**49**	**47**	**46**	**48**

Source: FAOSTAT, 2006

Average yields have either been fairly constant or declining in all these countries, with the exception of Tanzania, where yields have increased by more than twofold over the period (Table 2). The economic impact of a decrease in yields depends, of course, on the rate of extraction of sugar from the cane. Such data are unfortunately not available on a comparative basis for the SADC countries.

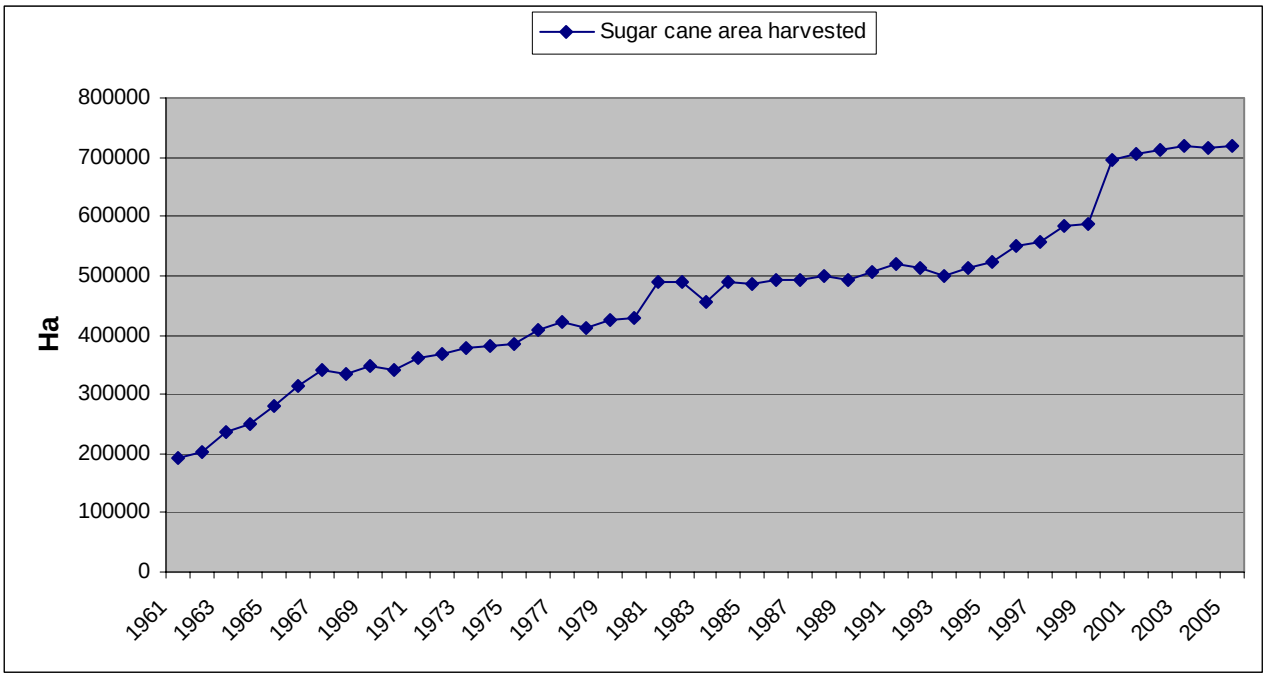
Table 2: Sugarcane yields in eastern and southern Africa (t/ha)

	1970s	1980s	1990s	2000s
Angola	46	32	36	38
DRC	60	42	49	40
Madagascar	43	32	34	33
Malawi	109	114	102	106
Mauritius	72	71	72	73
Mozambique	47	23	13	14
South Africa	88	71	63	50
Swaziland	108	105	98	99
Tanzania	40	95	89	110
Zambia	108	109	103	105
Zimbabwe	100	108	97	95

Source: FAOSTAT, 2006

Given these declining yields, it is evident from Table 2 that the increase in sugarcane production over the period is largely due to increased area harvested. This is supported by the data in Table 3, which again shows the effects of war in Angola and Mozambique and the recovery over the past decade, as well as the declining area harvested in Mauritius. Area expansion was the greatest in DRC, Malawi, South Africa, Swaziland, Zambia and Zimbabwe. Nevertheless South Africa, as the largest producer, was responsible for some 75% of the additional area harvested over these four decades as the sugar industry expanded out of the traditional growing areas of KwaZulu-Natal into Mpumalanga province.

Figure 2: Area of sugarcane harvested in the SADC region, 1961–2005



Source: FAOSTAT, 2006

Table 3: Area of sugarcane harvested in eastern and southern Africa, 1970–2005

	1970s	1980s	1990s	2000s
Angola	13,600	8,800	8,250	9,500
DRC	12,300	25,636	34,661	40,083
Madagascar	30,844	54,496	64,513	68,307
Malawi	6,057	14,519	17,415	18,667
Mauritius	80,318	78,067	73,749	71,261
Mozambique	55,000	29,000	22,500	27,000
South Africa	193,240	259,286	285,199	428,500
Swaziland	17,010	33,739	39,059	44,820
Tanzania	32,500	14,179	14,819	16,417
Zambia	5,579	10,296	13,096	15,000
Zimbabwe	22,209	31,782	36,049	42,833
Total	468,656	559,801	609,309	782,388

Source: FAOSTAT, 2006

Sugar policy settings in Africa

South Africa and SACU/SADC

Currently there are no tariffs on the importation of sugar into South Africa. All products from the SACU partners of Botswana, Lesotho, Namibia and Swaziland (BLNS) enter duty-free, as do almost all products from the other SADC countries (with the exceptions being second-hand clothing and motor vehicles and their parts), while at 2007 the Most Favoured Nation (MFN) tariff is set at zero given the relatively high price of world sugar. The domestic marketing arrangements are complex. A price pooling system is in operation and producers are allocated quotas to be sold on the domestic markets, while the South African Sugar association is the only exporter. In a policy environment where agriculture is lightly supported (the OECD PSE estimate for 2003 was 8%), sugar's 32 percent PSE is double that applying to milk, the second highest at 16 percent. This result is derived from a situation whereby the 2003 domestic price of South African sugar was nearly 50 percent above the global reference price. Given that South Africa is competing globally, this gave a producer nominal protection coefficient of 1.46 in 2003 (OECD, 2006).

Sugar trade within SACU and SADC is protected by the SADC 2004 Protocol on Trade, Annex VII, Concerning Trade in Sugar. Sugar is designated to be a product requiring special dispensation within the framework of the Protocol on Trade so that no sugar industry within SADC will suffer injury, but has a long-term objective to establish full liberalisation of trade in the sugar sector in the SADC region after the year 2012 (only if the world sugar market has 'normalised' sufficiently to make such liberalisation acceptable). Within SACU, a portion of the SACU sugar market, based on the annual growth in that market, will be allocated to each SADC net surplus producer according to each producer's relative net surplus production. Duty-free access to the SACU sugar market of 20,000 tons of sugar per annum shall be available to the non-SACU SADC surplus sugar producing countries and will be allocated according to each producer's relative net surplus production

Madagascar

The sugar industry accounted for 60 percent of the value of food processing output in 1986, but farmers continue to be implicitly taxed as their producer prices are very low relative to the world price. Since 1991, Madagascar has become a net importer even though exports had rebounded in 1999. As of 2001 it has had an export quota, which it has generally filled, to the United States of 7,258 tons and to the European Community of 10,760 metric tons. Despite the fact that sugar imports are subject to import tax (35 percent) and VAT (20 percent), inefficiencies associated with low capacity utilisation, low yields, and high input costs lead to high production costs for domestic sugar and therefore make imported sugar cheaper. Local communities have grown dependent on policy-dependent sugar industries, which make the political cost of reform high.

Mozambique

Sugar is subject to a variable tariff surcharge that depends on the international price of sugar on top of the normal duty (7.5 percent). In 2004, this surcharge amounted to figures close to 60 percent, although in 2006, due to higher international prices, the surcharge was at 0 percent, and only the standard duty applied. Sugar imports are also VAT exempted. After the privatisation of the sugar plantations and mills, the sugar sector has been granted high protection for the domestic market and benefits from sugar quotas in preferential export markets such as the EU, US, and SADC. Sugar is grown in large plantations that control production and milling, and only recently have outgrowing schemes been introduced.

Sugar has been a very important focus of government support in terms of agro-industrial policy. During the 1980s Mozambique shifted from being a net exporter to a net importer, but during the 1990s when protection was granted to the domestic market, production increased but oriented towards the national market as import substitution (relatively profitable), and exports were limited to the more profitable preferential markets. Protection is high, as sugar has a large positive Net Rate of Assistance (NRA) based on a very high import surcharge.

Tanzania

The levels of protection for sugar are hard to interpret due to data limitations, but seem to show that the sector is highly protected, as sugar typically is. Primary producers are effectively subsidised and the implied tax rates on consumers are very high, but at the same time farm-gate and wholesale prices for the primary product appear to have remained very low, far below the reference import price which is in turn below the retail price. There is limited competition in processing, with few buyers, while import quotas for processed sugar persist. It seems likely that the processors benefit from protection, and thus the estimated subsidy actually relates to processors, as consumers pay a high price.

3. The global picture

Details of the global production and trade data for sugar are shown in Table 4, with the data expressed in 1,000 metric tons (raw value) on the left side and their relative percentage shares on the right side. The data are expressed as an average of the last five years, with the EU the exception as the last three years are shown in that case. The share data are adjusted to account for the potential double-counting of Africa (and note that Africa does not include Egypt—a significant producer and importer but not an exporter).
The table highlights that:

- Africa (excluding Egypt) accounts for 5.7 percent of world production, 14.9 percent of imports and 7.7 percent of exports;
- South Africa is the only significant African player (1.8% of production), and the data from Table 4 can be used to place Africa in perspective;
- The largest producers globally are Brazil (18.6%), the EU (13.7%), India and China;
- The largest exporters are Brazil (34.9%) and the EU (11.2%), followed by Africa, Australia and Thailand;
- The largest importers shown are Africa, Russia and the EU (and the balancing entry of ‘unrecorded’);
- The dual nature of the EU as a large importer and exporter (intra-EU trade is

NOT included here); and

- Note that the data shown represent some 88.3 percent of the production and 86.4 percent of the exports but a lesser 58.9 percent of imports even when the balancing 'unrecorded' is included.

However, Table 4 does not reveal the most dramatic feature of world exports, namely the marked increase in Brazil's exports over the last decade. These exports are shown below in Figure 3 for 1997 through to 2006, and clearly show the large increases over the last three years. If it hasn't already become so, Brazil is primed to become the benchmark for exports to set themselves against in future sugar export competitiveness. We therefore include the Brazilian data to set a benchmark against which Africa must compete.

Table 5 provides more information as it displays the destinations of Brazilian sugar (HS 1701) over the last ten years. This data is expressed in US$ million for the total amounts and then the percentage shares for the respective main destinations as ranked on 2006 exports. It is interesting to compare the destinations for sugar exports from the main global exporter and South Africa: firstly, the destinations are very different and secondly the South African data show a lot more year-on-year variation in export destinations. Indeed, examining Figure 3 and Table 5 shows that the big increase in Brazilian exports over the last three years remains within a similar export destination profile. Brandão (2007) contains an excellent discussion on the Brazilian sugar sector, and in particular the linkages between traditional sugar products and ethanol production in Brazil. Given the currently high international oil prices the latter will provide support to global sugar prices, but it leaves open the question as to what may happen to sugar prices should international oil prices retreat.

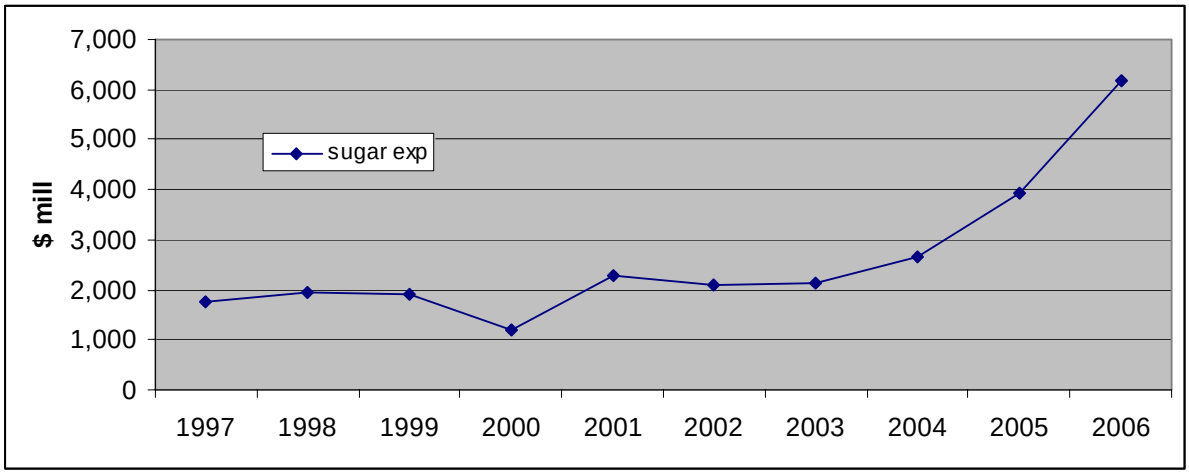
Table 4: The global sugar production and trade picture, volumes and % shares

	1,000 tons, raw value			**% Global share**		
	Production	**Import**	**Export**	**Production**	**Import**	**Export**
World	146,296	43,117	48,099			
Brazil	27,217	-	16,780	18.6%		34.9%
EU-25	**20,110**	**2,560**	**5,398**	**13.7%**	**5.9%**	**11.2%**

	1,000 tons, raw value			% Global share		
	Production	**Import**	**Export**	**Production**	**Import**	**Export**
India	19,526	549	970	13.3%	1.3%	2.0%
China	10,507	1,167	207	7.2%	2.7%	0.4%
Total Africa	8,378	6,443	3,684	5.7%	14.9%	7.7%
US	7,415	2,038	198	5.1%	4.7%	0.4%
Thailand	6,114	-	4,071	4.2%		8.5%
Other Africa	5,789	6,219	2,520	4.0%	14.4%	5.2%
Mexico	5,592	205	244	3.8%	0.5%	0.5%
Australia	5,255	9	4,149	3.6%		8.6%
Pakistan	3,488	585	64	2.4%	1.4%	0.1%
South Africa	2,589	224	1,163	1.8%	0.5%	2.4%
Caribbean	2,588	605	1,709	1.8%	1.4%	3.6%
Columbia	2,555	44	1,097	1.7%	0.1%	2.3%
Philippines	2,206	10	221	1.5%		0.5%
Russia	2,182	3,654	140	1.5%	8.5%	0.3%
Guatemala	1,985	2	1,366	1.4%		2.8%
Cuba	1,760	189	1,249	1.2%	0.4%	2.6%
Egypt	1,435	1,010	-	1.0%	2.3%	
Japan	895	1,375	12	0.6%	3.2%	
Unrecorded	-	4,982	-		11.6%	
Sub totals				**88.3%**	**58.9%**	**86.4%**

Source: USDA data, http://www.ers.usda.gov/Briefing/Sugar/data.htm.
This data represent the averages over the years 2002/03 through to 2006/07, excepting the EU data which is the average of the years 2004/05 to 2006/07.

Figure 3: Brazilian sugar exports, HS 1701 and US$ million



Source: World Trade Atlas data

Table 5: The main export destinations for Brazilian sugar (HS 1701), percentage share

Country	1997	1999	2000	2001	2002	2003	2004	2005	2006	Total
World $mill	$1,774	$1,911	$1,199	$2,279	$2,094	$2,140	$2,640	$3,919	$6,167	100%
Russia	21%	33%	26%	31%	24%	32%	19%	20%	21%	24%
Nigeria	9%	6%	9%	9%	9%	8%	8%	7%	6%	8%
Arab Emir.	7%	3%	9%	7%	7%	7%	9%	6%	7%	7%
Egypt	8%	8%	5%	7%	7%	5%	6%	4%	5%	6%
Morocco	6%	2%	4%	4%	5%	4%	4%	4%	3%	4%
EU 27	**4%**	**4%**	**6%**	**6%**	**3%**	**5%**	**3%**	**2%**	**2%**	**4%**
Canada	2%	3%	3%	3%	4%	6%	4%	4%	4%	3%
Iran	3%	4%	5%	4%	4%	1%	0%	2%	6%	3%
Saudi Arabia	0%	2%	4%	2%	3%	2%	3%	4%	4%	3%
USA	**6%**	**2%**	**6%**	**2%**	**2%**	**3%**	**2%**	**3%**	**1%**	**3%**
Yemen	6%	3%	4%	3%	3%	2%	2%	3%	4%	3%
Algeria	1%	2%	2%	1%	2%	4%	5%	3%	4%	3%
Malaysia	0%	3%	1%	2%	2%	1%	1%	2%	5%	2%
Bangladesh	1%	1%	1%	0%	0%	1%	4%	3%	4%	2%
Ghana	2%	1%	1%	1%	1%	3%	3%	3%	2%	2%
Syria-	0%	1%	0%	1%	3%	1%	3%	3%	2%	2%

Source: World Trade Atlas data

3.1 Global sugar policies[6]

The sugar market is generally recognised (along with rice and dairy products) as being the most heavily protected agricultural market worldwide. This has the effect of distorting the data in several ways. The first is in the production data, where large subsidies to producers in the EU, US and Japan in particular increase production beyond what it would be in the absence of those supports. An estimate of this protection level is provided by the OECD, which suggests that producers in the EU, US and Japan are paid some 2.23, 1.76 and 2.42 times the world reference price respectively. This is then accentuated by (a) these same countries having to maintain high rates of protection against imports and (b) in the case of the EU unlawful exports to third countries further depressing world prices. Part (a), the high rates of protection, is especially acute in the case of the EU, US and Japan, although in the EU and to a lesser extent the US, preferential access is available to many developing

[6] This discussion is based on Oxfam, 2004 and Mitchell, 2005.

and least developed countries. This creates the winners and losers amongst third country producers (hence the 'haves and have-nots').

3.1.1 The EU

The EU sugar policy is particularly distorted, with the root cause being attempts to isolate and protect the more expensive temperate climate sugar beet production from the cheaper tropical cane sugar production[7]. These sugar policies are in the process of being reformed in the face of WTO pressure from a panel case that the EU lost (thus forcing it to reduce the—mostly illegal—exports of sugar) (e.g. Oxfam, 2002), internal reforms of the Common Agricultural Policy (CAP), and in response to preferential access being offered to the world's poorest countries through the EBA agreement. These reforms are, as expected, complex, and involve the voluntary quota retirement scheme, a reduction of 36 percent in the sugar price over a four year period starting in 2006/07 and a raft of other (cosmetic?) changes. Compensation will be paid to farmers at an average of 64.2 percent of the price cut and of course, being the EU, the retirement schemes are made financially attractive (Mitchell, 2004). See in particular Bureau et al. (2007) for a more detailed discussion of these reforms.

While this is all well and good, there is a twist in that while the producers are adequately compensated, producer prices are expected to decline to around 80 percent of their current levels over the next few years. This means that (a) the economic rents enjoyed by the 'haves' with preferential access will fall even more dramatically as their rents are very much a function of the difference between the world reference price and the EU domestic price; and (b) the WTO sanctioned tariff rate quotas (TRQs) in place will still act to prevent the 'have-nots' from exporting sugar at their world reference prices. Despite the loss of preferences from the 'haves' they must still regard the EU market as the most lucrative, and a likely increase in their exports will put further pressure on the EU to action meaningful reforms in the sugar sector (already there is talk of 'voluntary restraints' from the 'haves' as a way of the EU avoiding these meaningful reforms). The reform also offers assistance to the African, Caribbean and Pacific (ACP) countries that currently enjoy preferential

[7] Globally around 75 percent of the sugar is from cane and not beet (Mitchell, 2004).

access to the EU sugar market, but although negotiations are underway for better market access for the ACP countries into the EU, these negotiations are almost certain to exclude sugar. There are six SADC countries that have access into the EU under the EU-ACP sugar protocol, namely Malawi, Mauritius, Swaziland, Tanzania, Zambia and Zimbabwe and are thus part of the 'to have' group.

During 2002 through to 2004, the EU was a net importer of sugar within its highly complex and severely distorted trade regime, but during 2005 it again became a modest net exporter (Mitchell, 2004). This pattern will alter as the illegal export subsidy regime is modified and the internal EU sugar price declines to nearer (but still above) the world reference price. Table 6 shows the main sources of sugar imports into the EU over the two periods of 1995 and 2005. These imports are all under preferences, as the high MFN tariffs effectively prohibit other imports. These preferences are:

- The Cotonou Agreement (an extension of the old Lomé Convention) with the EU, whereby all countries in the Southern African region except South Africa have non-reciprocal trade preferences into the EU, but subject to a safeguard clause and rules of origin. This access includes special access for bananas, beef and veal, and sugar. The agreement is for the period to 31 December 2007 and in theory will be replaced by the Economic Partnership Agreements (EPAs).
- The Sugar Protocol (SP), associated to the Cotonou Agreement, a bilateral agreement between 20 ACP countries and the EU that allows for a fixed import of 1.3 million tonnes of sugar, duty-free and at a guaranteed price that is linked to the EU institutional price. It will be reviewed in the context of the EPA negotiations.
- Complementary Sugar, a virtual add-on to the SP that allows for an extra 300,000 tonnes annually from the SP countries and India to be imported duty-free.
- GATT (WTO) MFN Quota – a tariff quota of 85,000 tonnes annually for mainly Brazil and Cuba since 1996, with a duty of E98/tonne.
- EBA, which from 2009 finally allows for full-duty quota and duty-free sugar imports from the least developed countries (LDCs), several of which are from

Africa.

- Western Balkans, another quota access commitment from the EU of around 400,000 tonnes.

Table 6 shows the 2005 EU imports set against a 1995 historical reference, with all of these sources exporting under some form of preferences. Except for the arrival of the Western Balkans, there is the stability that one would associate with controlled import regimes. The African countries of Mauritius and Swaziland are significant traders, while both Malawi and Zimbabwe have a presence at the bottom of the table.

Returning to Table 1, we see that the major regional producers (South Africa, Mauritius, Swaziland and Zimbabwe)[8] are NOT entitled to EBA access, while the EBA-eligible countries (Madagascar, Malawi, Mozambique, Tanzania and Zambia) have not been major producers during an era when potential economic rents from preferential access to the EU may have been available to them. The data are updated in the Annex to this paper, and extend to an extrapolation of the potential losses that will be incurred by these exporters from 2009/10.

Table 6: The major sources of EU sugar imports, 1995 and 2005, million Euro

	EU imports				**Average annual growth (%)**
	Million Euro		**% of total**		
	1995	**2005**	**1995**	**2005**	
Extra-EU	985	1.175	100	100	1.8
Mauritius	279	301	28	26	0.8
Croatia	0	111	0	9	
Fiji	93	90	9	8	-0.3
Guyana	90	85	9	7	-0.5
Swaziland	87	80	9	7	-0.8
Jamaica	74	63	8	5	-1.5
Serbia and Montenegro	0	56	0	5	

[8] We note that there is a debate on conferring LDC status to Zimbabwe as its crippling economic situation has deteriorated to a level that leaves it well within the LDC definitions. If this happens there is a secondary issue as to whether the EU would follow the US lead (under AGOA) and refuse preferential access and even a third issue as to whether the oppressive Zimbabwean regime would submit to the indignity of being classified as an LDC by western powers. This complex political issue has major implications for the sugar sector in Zimbabwe.

	EU imports				Average annual growth (%)
	Million Euro		% of total		
	1995	2005	1995	2005	
Brazil	37	45	4	4	1.8
Zimbabwe	30	34	3	3	1.1
Malawi	13	30	1	3	0.9
Rest	282	280	29	24	-0.1

Source: Eurostat COMEXT 20 September 2006 (S.R. 4)

3.1.2 The US

The US sugar policies are less complex but still very protectionist. The domestic price of around double the world price is maintained through domestic marketing allocations to control supply at these prices and import quotas with a high associated tariff and quota allotments to restrict imports. Importantly, there are WTO TRQs restricting sugar and in almost all cases sugar is restricted or ineligible under the so-called free trade agreements (FTA) between the US and parties that produce sugar. These restrictions or bans extent to the generalised system of preferences (GSP) scheme for poorer countries and the African Growth and Opportunity Act (AGOA) for selected African nations[9]. An exception to this general principle is the Mexican FTA (NAFTA) whereby over-quota tariffs are supposed to decline to zero by 2008, creating considerable uncertainty in the US despite Mexican production costs appearing to be higher than those in the US.

Annual imports under the raw and refined sugar TRQs have averaged 1.22 million short tons since 2000. Most US sugar imports are raw cane sugar. The raw cane sugar TRQ is allocated to 40 countries based on patterns established during the relatively unrestricted free trade period of 1975–81, with the Dominican Republic, Brazil, and the Philippines holding the largest shares, approximately 17, 14, and 13 percent, respectively. The US also administers two re-export programmes to help US sugar refiners and manufacturers of sugar-containing products compete in world markets. These are the Refined Sugar Re-Export Program and the Polyhydric

[9] Zimbabwe is not eligible for any preferences into the US under AGOA and there are no AGOA preferences for sugar to any countries. Similarly, there are restrictions for most non-African countries under the much more modest Generalised System of Preferences (GSP) that the US offers to developing countries for sugar imports.

Alcohol Program, which provide world-priced sugar to US manufacturers of polyhydric alcohols.

There are two possible wild cards that need to be introduced into US sugar policies. One is the possible triangular effect of the production of methanol from maize (corn) which may impact upon sugar substitutes and direct more of the sweeteners back to sugar rather than substitutes. The second is the inevitable regime change in Cuba following Fidel Castro, as opening the US market to Cuban sugar would be a major win-win situation for both Cuba and the US in normalising their relations.

3.1.3 Japan

The Japanese sugar policies are in some ways just as complex and even more inscrutable. While notional tariffs are very high for sugar into Japan (up to 171 percent), there seem to be several channels through which duty-free imports can be brought into the country. These are tightly controlled and act as TRQs, and are currently benefiting South African sugar exporters.

Conversely, the major sugar exporting nations of Brazil, Australia and Thailand that operate at or near world prices have relatively unsupported sugar sectors.

3.2 Global prices and prospects

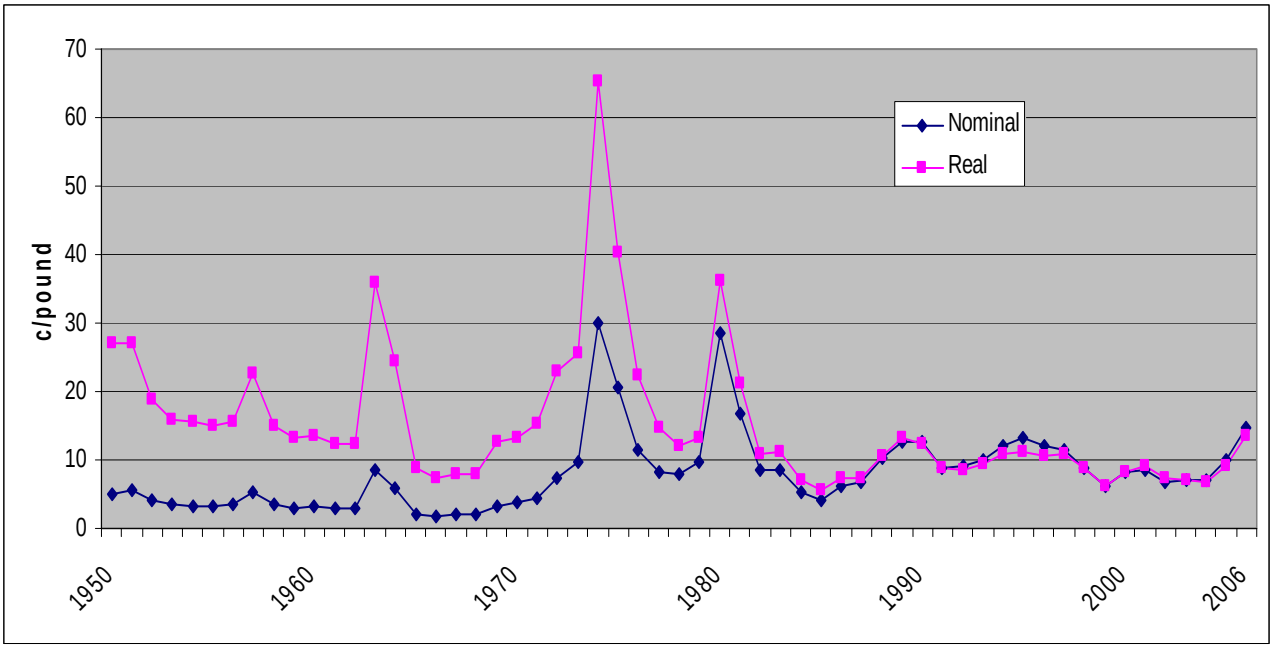
Real and nominal global sugar prices (1990 = 100) since 1950 are shown in Figure 4, both in US cents per pound. The price spikes during the commodities booms of 1963, 1974/75 and 1980 are clearly visible, as are the lows of the mid-1980s. Prices in both real and nominal terms have been relatively stable over the last twenty years, with a visible upturn over 2005 and 2006[10]. On a side note, this upturn has implications for the SACU tariff schedule, as the sugar tariff, set as a function of the world price, is currently[11] zero.

What are the prospects for the world sugar price from 2006 onwards? Much of the answer will lie with the real impacts of EU sugar reforms, with these impacts coming

[10] Although prices have fallen since December 2006 (FAO, 2006)
[11] As at 25 June 2007.

through different channels. There is also a possible reform of agricultural policies being mandated through an agreed outcome to the Doha Development Agenda (DDA) of the WTO. However, this is looking increasingly unlikely in the short- to medium-term as (a) the agreement itself is looking increasingly difficult to finalise and, b) more importantly despite the second D in DDA standing for development, the major OECD countries are almost certain to continue sugar protection under the Sensitive Products escape clause as the situation currently stands. This clause nullifies much of the potential gains from a DDA outcome for the key products of interest to developing countries. Thus, unilateral reforms in the EU in particular hold the key for future prospects, although, as discussed, these reforms and the associated lowering of EU internal prices will effect the 'haves' and 'have-nots' in diametrically opposite ways.

Figure 4: Global sugar prices, cents per pound, real and nominal



Source: World Bank data series, personal communication

What then are the likely impacts of the EU sugar reforms? There is little doubt that the global price will increase as the EU internal price declines. Estimates of these likely global increases are provided by:

- OECD (2004), which reports that studies undertaken in the late 1990s and the early years of this millennium calculate increases in sugar prices from global

trade liberalisation ranging from a low of only 2-8 percent from the IMF through to 5-41 percent (depending upon assumptions) from Australia's ABARE, and incorporating the USDA's 16 percent with full reforms to the FAO's 43 percent. The OECD's own estimates are around 10 percent for EU liberalisation only, with this increasing to around 15 percent with liberalisation in North America and the rest of the OECD countries included, through to 23 percent for complete global liberalisation. Their model also suggests that South African production would increase by some 38 percent and global exports would double under the extreme global liberalisation. For the other main 'free' producers, production from the 2004 baseline increases in Brazil (19%), Australia (7%) and Thailand (3%), while decreasing in the EU, US, Japan, ACP countries, China and India.

- The Economic Research Service of the USDA (2006) report their calculations of a global price increase from EU liberalisation under different assumptions ranging from 24 to 44 percent. Production in the EU declines by around one-third as exports are effectively blocked off, although the tariff rates still maintain protection that in turn restricts imports and maintains producer prices at levels still well above global prices.
- Iowa State University's Center for Agricultural and Rural Development (CARD) simulated the possible outcome of complete global liberalisation in sugar (Elobeid and Beghin, 2004). They considered that prices would increase by 47 percent by the end of the projection period, aggregate trade would expand moderately, but the location of production and trade patterns are substantially affected. OECD high-cost countries experience an import expansion or export reduction and significant contraction in production (and particularly the EU and Japan), while the big gainers are Brazil, Cuba and Australia. .

There is almost symmetry between the EU internal price reductions of 36 percent—a known factor—and the range of world price reductions offered above, although the 36 percent is probably at or beyond the extreme range for the global price increases. Nonetheless, the world price may increase pretty much in tandem with the EU price decreases.

A note must be made about what these modelling estimates actually say—they are estimates of how much above the baseline price global sugar price would be at the

final implementation of the policy change. Looking at Figure 5, it can be seen that the 2006 price is trending up from its recent levels, and indeed is higher than it has been for more than twenty years. It could be that much of the projected price increase is already being factored in with respect to EU reforms, thus the final outcome may well be something well short of the projected increases when expressed against 2006 global prices. Support to this more pessimistic scenario is given by the recent (June 2007) decline in global sugar prices to the level of below ten cents a pound that prevailed through most of the present millennium, and there is a suggestion that the recent price spike may have been driven more by speculative pressures than real economic factors.

Indeed, ABARE in their 2007 projections through to 2011–2, project that the current prices will fall by 27 percent in 2007 due to increased global production that resulted in increased stocks. Furthermore, the prices are projected to decline in real terms over the majority of the forecast period despite EU reforms and rising ethanol demand (and in real terms decline from US 16.3 c/lb in 2005 to between 7.0 and US 8.9 c/lb during the last three years of the forecast period). Production is expected to stabilise over the period as increases in Brazil and other low-cost cane producers balance the EU reductions, and in the absence of these reductions the global price would be driven even lower. These forecasts are consistent with those of the OECD's over the period through to 2014, but the OECD sees a large one-off increase in 2015 before declining again the next year.

This takes us to the next stage: amongst the African countries, who will lose and who will gain? However, before examining this question it is appropriate to look at relative production costs to see where the dice may fall for the potential winners and losers. Unfortunately, preferential access to the EU has distorted the production costs in many countries as the economic rents are dissipated through inefficient production and processing.

Conforti *et al*. (2007) analytically examine the sugar prospects for LDCs following trade reforms in the EU. They find that these reforms do not make much difference in terms of export volumes from these countries collectively, but exporters' revenues are reduced significantly as the EU preferences reduce but quotas are abolished.

The export increase seems to be restricted to about 500,000 tonnes, with general supply constraints the limiting factor. However, as this reference price remains above the world price, these preferences are still valuable. They confirm that losers are (a) the high cost producers of mainly the Caribbean and (b) lower cost producers who are not in the LDC group and therefore do not get EBA access. The latter group includes Swaziland and Mauritius.

This analysis is supported by Van Berkum *et al.* (2005), who also develop a sugar-specific Computer General Equilibrium (CGE) model based upon Global Trade Analysis Project (GTAP) and using the GTAP database. They look at two scenarios: the first really just the EBA and its impacts; and the second broadening this to simulate the more complex issues associated with the overall EU sugar reform package. For the latter, the key question is the degree of substitutability between EBA-sourced sugar and EU produced sugar, as the two are not perfect substitutes for each other, and this makes a big difference to EBA imports. For the EBA simulation, their imports into the EU increased by 384,000 tonnes to 444,000 tonnes annually. However, there were four components of this EBA increase to the EU that are crucial:

- The direct production in EBA countries that was only 142,000 tonnes;
- The so-called 'triangular trade' from third parties channelling extra exports into EBA countries to enable the EBA countries to export to the EU (118,000 tonnes);
- Diversion of EBA sugar away from third destinations (41,000 tonnes); and
- A decline of sugar consumption in EBA countries of 83,000 tonnes in response to higher world prices.

Under the EBA scenario, the EBA countries gain some $443 million in welfare, while under the broader EU reform scenario where all the complex factors are considered, this drops marginally to $382 million. And of course, despite the EU maintaining that this entire reform exercise is to help EBA countries, under comprehensive (but still incomplete) reform the EU gains $4,647 million itself through enhanced efficiency, lower consumer prices and lower export subsidies. The authors continue from this analysis to assess the developing country winners and losers under these reforms,

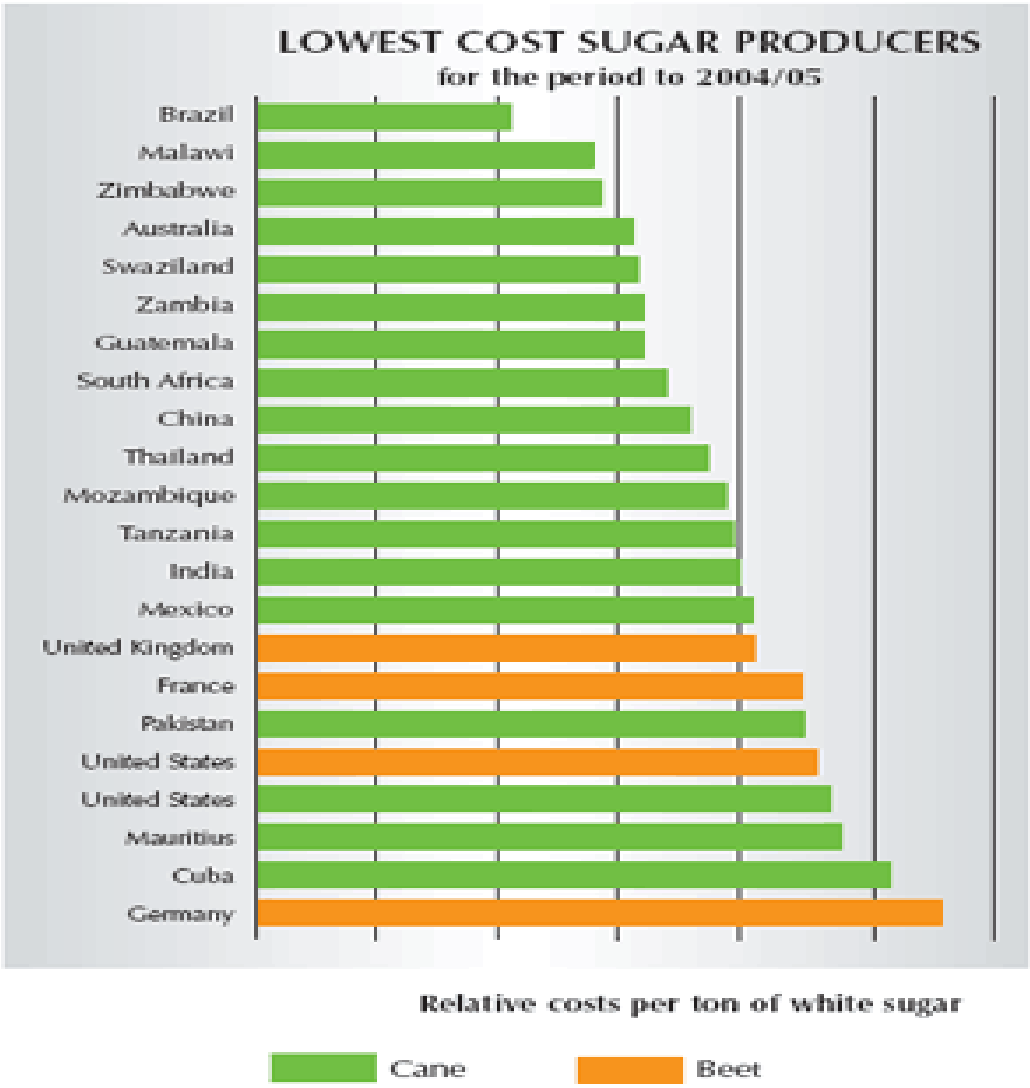
and agree with other research that the big African losers are Mauritius and Swaziland that currently gain some 4.0 and 4.3 percent of their Gross Domestic Product (GDP) in terms of the pure economic rents from preferential access into the EU. Potential African gainers are DRC, Côte d'Ivoire, Zambia and Zimbabwe, although only the last two have significant sugar exports. In addition, we note that in their tables, Malawi is also listed as an important sugar producer and exporter that is both a low-cost producer and an EBA country.

3.3 Global production costs – where does the region sit?

An indication of global sugar production costs is provided below. This highlights:

- The absolute advantage of Brazil;
- The good position of many African countries;
- The poor position of some other African countries (Mauritius in particular); and
- The high costs of both of sugar production in both the EU and the US.

Figure 5: Global production costs



Source: Illovo website

http://www.illovosugar.com/worldofsugar/internationalSugarStats.htm.

Further support to these costs is given by Mitchell (2005) who presents a graphic representation of the data collated by LMC International over the 2000–2005 periods. These data show production costs relative to the efficient free-market exporters of Australia, Brazil, Columbia, Guatemala, South Africa and Thailand[12], The graph indicates that Zimbabwe and Malawi are marginally 'below the indicative line', while Zambia and Swaziland are perhaps ten to fifteen percent above it. The next African grouping of Mauritius, DRC and Tanzania is perhaps 50 to 60 percent above the line (thus signalling real problems), while Madagascar is well out of the picture with

[12] These countries account for around 60 percent of global exports.

production costs at least three times the benchmark. While we have not accessed the LMC original research, their work is the accepted benchmark and other studies such as Berkum et al (2005) also use the same data source.

4. The region – implications for the future

This section will sequentially examine prospects for the region. A useful starting point is the analysis provided by Chaplin and Matthews (2006) who calculate the expected revenue loss from the EU reforms as faced by ACP sugar exporters to the EU. These total €307 million, with one-third (€100.2 million) being faced by Mauritius and a further €33.8 million faced by Swaziland. Thus, these two countries face some 45 percent of the total adjustment costs. Others African countries facing reductions of between €5 and 10 million are Côte d'Ivoire, Malawi, Zambia and Zimbabwe, while DRC, Kenya and Madagascar face relatively minor losses and can be discounted from future analysis.

In interpreting these arguments, it is important to consider that a relatively large proportion of the total output of refined cane sugar in the countries under discussion is produced by a single firm, namely Illovo. This firm produced 35 percent of Swaziland's national output, 25 percent of Mozambique's, all of Malawi's and 50 percent of Tanzania's over the past few years (www.agritrade.cta.int), plus it is also a large producer in South Africa. Future investments by the firm, and its ultimate owners, are likely to be based on their estimate of the extent of trade concessions that these countries are able to retain, especially into the EU.

4.1 Losers

These will be concentrated on the exporters currently operating under preferences that face a declining EU price. Within this group there are sub-groups. One of these is the two major exporters of Mauritius and Swaziland, neither of whom have the fall-back position of quota and duty-free access under EBA. Another is the less significant group of EBA countries that will continue to have quota- and duty-free access to the EU but at a lower price and therefore lower economic rents. These are placed into the 'uncertain' group below rather than the 'losers'.

The Kingdom of Swaziland has all the characteristics of a dual economy, and is a small land-locked country with high levels of poverty and income inequality. South Africa is the source of nearly 90 percent of its total imports and the destination of around 55 percent of its exports. Sugar (mostly to the EU) and sugar-related products are the major export, and these are heavily dependent upon preferential access into the EU. Around 60 percent of agricultural production is focused on the sugar sector and it contributes some 11 percent of the GDP. While the potential losses of EU rents are important, Swaziland does have the potential, from a combination of increased production and higher global prices, to take advantage of its relatively low-cost structure to compensate for this by increasing global exports. Action is being taken to maintain competitiveness in the sugar sector so that the country, and in particular the sugar industry itself can adequately prepare for the income losses still to come. Restructuring of the sector is underway, with a third of the workforce having recently been retrenched (down from 10,000 to 6,500—a major impact given the plague of unemployment which blights Swaziland) and others affected by 'outsourcing' which reduces their rights of access to health care, education and housing. Social service provision such as hospitals and clinics is also being substantially downsized in sugar growing areas, as the industry seeks to offload these facilities onto a government, which itself is facing revenue losses as a result of EU sugar sector reforms, thus accentuating the initial problems.

Mauritius is a very small country of some 1.2 million people that has become relatively wealthy by African standards, with much of this wealth derived from the crucial sugar exports to the EU[13]. While a successful transformation programme to lessen sugar dependence has been under way for the last few years, Mauritius continues to lead the argument for slower reforms and compensation assistance from the EU. Despite a programme to improve production efficiency, Mauritius remains a relatively high-cost producer with costs about double those for other African low-cost producers, due, in part, to climatic and land constraints and complacency during the economic rent period. This has led to the situation whereby some 99 percent of the production is exported (mainly to the EU) to reap economic rents from preferential access while domestic consumption is met from lower cost imports from South

[13] During 2004 the FAO reports that sugar occupied some 70 percent of the total arable land of only 106,000 hectares.

Africa.[14] Such a regime will not be tenable under sharply reduced rents, and given the cost structure in Mauritius it is even possible that the country will be forced out of sugar production entirely, unless some dramatic restructuring is made. This restructuring does not look feasible and the Mauritius sugar industry may well go the way of wheelwrights a hundred years ago with the advent of the combustion engine!

4.2 Uncertain

This is another relatively small but generally low-cost producing group of Zimbabwe, Zambia and possibly Malawi who will (or may in the case of Zimbabwe) have access to the EU under the EBA. These countries will lose from lower economic rents on current exports to the EU, but will still be eligible for unrestricted access to the EU at above world prices. Supply constraints are the main issue here, not access, assuming Zimbabwe does obtain EBA access.

4.3 Winners

We see only one clear candidate here, and that is South Africa, a relatively low-cost producer[15] that does not currently benefit from preferential access into any markets. Section 5 will investigate the sector and its prospects in more detail.

4.4 The issue of compensation/adjustment assistance

There are two sides to this debate. The **first** is the view taken, as always, by the losers and supported by civil society that there is both a need and an obligation for this assistance. The LDC sugar countries are taking the view that the adjustment process should be changed to allow for a means of allowing for continued trade volumes at higher prices. This is of course diametrically opposed to the concept of trade reform and will serve to continue maintaining inefficient sectors in many cases.

[14] This trade is shown in Table 7 below, where Mauritius was South Africa's 7th main export market for sugar during 2006. It highlights the absurdity of international markets where this concept of 'swaps' operates to enable those with preferences to take full advantage of these rents and import domestic requirements from those without preferences.

[15] While generally a low-cost producer, the South African sugar section is still heavily protected with a Producer Support Estimate (PSE) of 32 percent during 2003 according to the OECD. This is double that of the next highest sector (milk) and way above the almost free-market level for overall agriculture at 5 percent. This is supported by Kirsten *et al*. (2006), although we would note that in June 2007 there was no tariff levied on imports into South Africa/SACU on sugar.

The **second** view is that the 'haves' have been benefiting from severe distortions to the sugar regime over an extended period of time and that if they cannot compete in the 'real world', that is what the concept of efficiency is all about. This view is complicated by the moral issue of adjustment assistance, which in itself raises several questions, one of which is the fundamental question of why they should be 'compensated' for having privileges removed and the second is that if such compensation is to be given, through what channels it should be delivered. Continuing to prop up an inefficient industry may not be an appropriate channel. We will not comment upon this issue except to say that it will not go away (although we would note that EU producers have been handsomely compensated).

5. The prospects for Southern African exporters

Table 4 showed that South Africa has had an average global export share of 2.4 percent over the last five years. The export data for South Africa are expanded in Table 7, where the data are provided at the HS 4 level, and expressed in South African rand (million). Several features can be pointed out from the export profile. The first is the main OECD markets of the US and particularly the EU provide limited opportunities to South Africa. The second is that the Japanese (and Korean) markets are both important and consistent, while the third is that, in contrast to this consistency, most of the other major markets show a great deal of variation. Not shown are (a) the exports to fellow SACU members, and (b) that over the period there have been important almost one-off exports to Egypt, the Philippines (2001), Malaysia, India and Israel.

Table 7: South Africa sugar exports (HS 1701), rand million

Country/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
World	1,208	1,142	1,694	1,444	1,802	2,623	2,242	1,693	1,438	1,770	2,573
Iran	21	99	208	170	320	278	29	0	63	93	673
Mozambique	36	54	49	112	196	308	423	390	253	30	315
Japan	**205**	**132**	**246**	**191**	**188**	**318**	**253**	**196**	**207**	**305**	**290**
Korea	147	117	259	170	217	357	330	166	154	208	255
Angola	13	12	22	19	13	19	27	25	36	47	108
Bangladesh	0	0	0	0	0	0	6	1	0	25	90
Mauritius	33	51	65	54	69	36	101	62	62	42	90

Country/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Kenya	32	80	113	96	131	152	132	87	115	114	87
US	**185**	**114**	**161**	**36**	**124**	**87**	**106**	**80**	**64**	**133**	**85**
China	13	0	0	0	0	0	3	0	0	30	66
Saudi Arabia	0	114	54	**128**	**217**	59	89	0	84	23	64
Pakistan	0	2	0	0	40	**172**	0	0	0	0	56
Madagascar	10	30	70	39	22	90	76	96	85	52	53
Uganda	7	13	10	10	5	0	2	3	3	18	43
Russia	34	0	**179**	**144**	0	42	0	88	0	0	40
Ghana	5	4	8	13	22	20	63	25	27	28	29
Tanzania-	46	53	39	53	63	45	41	23	58	55	26
Indonesia	0	0	3	0	0	30	70	1	0	**287**	22
Nigeria	2	0	0	0	36	1	29	37	17	24	19
Sudan	0	0	0	0	0	1	**75**	15	0	2	5
EU 27	**2**	**82**	**12**	**6**	**6**	**50**	**31**	**22**	**13**	**8**	**1**

Source: World Trade Atlas data

Tralac has been undertaking a series of research papers examining the implications of alternative trade policy options for South Africa/SACU using the GTAP model. These have included a 'most likely' outcome for the WTO Doha Development Agreement (DDA) and a suite of free-trade options (FTAs). **Brazil** is widely expected to be a big winner from an agricultural DDA outcome, but the data hardly support this. There was almost no change in Brazilian sugar exports (up $15 million only, with this split between $6 million to Africa and $8 million to the Rest of the World), indicating that all the protected sugar markets are using their Special Products rights available to them in sugar to avoid having to make access changes to their markets. This is confirmed by looking at the results for **South Africa**, where both exports and imports decline by around two to three percent and production similarly declines by around one percent. There is however a marginal increase of 0.2 percent in South African sugar prices as a result of the DDA outcome, but the production declines as other agricultural sectors become relatively more profitable in the absence of any meaningful reforms in sugar.

Turning to FTAs, Sandrey and Jensen (2007) indicate that if **South Africa, Brazil and India** open up their sugar markets **to each other**, South African production will decrease (0.8%), exports will decrease (3.9%) and imports will also decrease (0.6%),

but output prices will increase (0.8%). This indicates that South Africa is competitive against the global benchmark producer Brazil.

Looking at the implications of extending the South African and EU Trade Development and Cooperation Agreement (TDCA) to complete duty- and quota-free access for SACU products indicates that in the case of sugar export to the EU27, the aggregated countries of Lesotho, Namibia and Swaziland gain a lot from zero access into the EU. Currently out-of-quota exports from Swaziland are imported duty-free, but should they wish to export more, they face an import tariff of 81 percent in the EU which is reduced to zero in our FTA (note that Swaziland is not included in the EBA agreement although it is in the EU sugar protocol). The results suggest a doubling of sugar production and exports from the rest of SACU (Swaziland), and an increase of 50 percent in the price, with exports increasing by $916m at 2015. In theory, these gains to Swaziland should mostly transfer across to open access under the EBA or a similar agreement such as a liberal EPA outcome. South African sugar exports actually decline overall following an FTA with the EU, as the increase of $22 million to the EU is not enough to compensate for an overall decline to other markets as resources are marginally diverted away from sugar despite the abolition of the 61.8 percent EU tariff.

In response to an FTA with the US on the other hand, sugar exports from Swaziland increase by around 15 percent and those from South Africa by some $34 million. These results for South Africa are less than would have been intuitively expected. For an FTA with Japan there are no sugar access gains for South Africa, as sugar exports are currently entering duty-free. Given the comparative advantage that South Africa has in the **sugar** sector it is surprising that there is a somewhat muted response into the highly protected markets of the EU and US in particular. In reality, this may be an artefact of the GTAP model, as usually in a situation where there is little or no trade prior to liberalisation the model does not have a ‘platform’ to increase from. Technically, the so-called Armington elasticity assumptions that differentiate between products from different sources should help but not alleviate this problem.

Would South Africa sacrifice its sugar sector in an FTA with the US in the same manner in which Australia did? This is really a hypothetical question, as South Africa

is not able to unilaterally negotiate any new trade agreements under the terms of the new SACU Agreement without its fellow SACU members involved, and given the importance of sugar to Swaziland it is unlikely that even if it was possible for South Africa to negotiate with the US that Swaziland would acquiesce on sugar. Similarly for any extensions to the TDCA for South Africa, where the Republic is in a negotiating situation where the complexities between the TDCA and the EPA negotiations (discussed later) with be the over-arching factor. But the answer to the hypothetical question is most likely to be 'yes' to both the US and the EU.

The University of Pretoria's Bureau for Food and Agricultural Policy (BFAP) publish projections each year for South African agriculture. Their 2007 estimates for sugar production, price and exports are shown in Table 8. Note that the world price (in nominal US cents per lb) as supplied to BFAP from FAPRI is forecast to decline modestly over the period, and that South African exports actually decline.

Table 8: South African sugar projections, 2005 to 2015

Variable/year	2005	2007	2009	2011	2013	2015	% Change
		1,000 ha					(av)
Area in sugarcane	428	425	423	421	419	419	-0.23%
area harvested	331	321	321	318	317	317	-0.43%
		1,000 tons					
Sugarcane production	21,052	20,898	20,912	20,823	20,809	20,830	-0.11%
Sugar production	2,507	2,457	2,459	2,448	2,447	2,449	-0.23%
domestic use	1,262	1,275	1,271	1,271	1,273	1,280	0.01%
Exports	1,239	1,178	1,183	1,173	1,169	1,165	-0.61%
	US cents/lb						
Global price (nominal)		11.9	11.3	12.0	12.4	12.8	-2.82%

Source: University of Pretoria using FAPRI' s projections on world sugar price

This future global sugar price is crucial, as it sets a benchmark for the economic rents in the EU (although this is not relevant to South Africa). Some media reports/hype are suggesting highs of even 20c/lb in the future, and if this was to be sustained through reduced EU production and exports and global ethanol production, then world sugar prices may approach the same level as post-reform EU sugar prices. This would lessen the demand for more EU sugar market reforms and allow ACP countries to gain some value from remaining preferences. Even if the price spike is a

bubble indirectly linked to oil prices it is likely to allow a softer landing for the preference countries and give South Africa gains from greater export values. The problem is that sugar production response is rather a ponderous beast in that while it takes time to mobilise, it also takes time to switch off, thus exaggerating the price swings.

PROVIDE (2004) gives another insight of the likely impact on South Africa following liberalisation of the global sugar industry. The analysis examined the twin effects of increasing world prices of sugar by 50 percent and then improving South African processing efficiency by 10 percent. The results concluded that the outcomes of sugar liberalisation for South Africa are not definitely positive, but the expectations were that changes will be positive and visible in the sugar cane producing areas, with increases in GDP of 0.03 percent and 0.078 percent, with liberalisation of trade with technical change and without technical changes respectively. Thus, just increasing global sugar prices needs to be accompanied by increased efficiency in the processing sector for South Africa to benefit. In terms of the factor income welfare effect it came out clearly that gains are distributed more heavily towards low-income groups.

As a final thought on South Africa, we must consider the sugar-related trade in processed fruit products such as canned fruit and jams that contain large amounts of sugar. Currently there are no concessions for these products under the TDCA with the EU, and a major concession on these products under the current review of the TDCA could make a considerable difference to South African fruit and fruit-related exports, a field where South Africa has a considerable comparative advantage and global trade.

6. The wild card – the EPA negotiations with ACP countries

The unknown factor for Africa is how the negotiations for replacing the Cotonou Agreement with the proposed Economic Partnership Agreements (EPA) will proceed. While this does not effect the EBA countries, it has major implications for the non-EPA countries, and indeed, as a special case, for South Africa. The EPAs will replace the Cotonou Agreement between the EU and the ACP countries, as the

waiver exempting these chapters from WTO law will expire at the end of 2007, requiring both parties to have put in place a WTO-compatible alternative. Under current arrangements, the 40 ACP LDCs have duty- and quota-free access to the EU while the 37 non-LDCs have special tariff preferences. South Africa has the TDCA, an agreement that excludes sugar and many other agricultural products.

On 4 April 2007 the EU announced that it proposed removing all remaining quota and tariff limitations on access to the EU market for all ACP countries as part of the EPA negotiations. The offer covers all products, including agricultural goods like beef, dairy, cereals and all fruit and vegetables. It will apply immediately following the signing of an agreement, but (and here is the kicker) with a phase-in period for rice and sugar. The only exception will be South Africa, where a number of globally competitive products will continue to pay import duties (read sugar). For ACP exports to the EU the offer will:

- Eliminate all tariffs and import quotas for all ACP.
- Give all ACP countries the same full access to EU markets that all LDCs have under the EBA duty and quota-free market access system.
- Apply in full from day one—planned to be 1 January 2008—with the exception of a transition period for rice and sugar. The transition periods for rice and sugar will ensure compatibility with EU market reforms and ensure stability to protect the interests of both the EU and ACP producers who supply those markets. From 2015, ACP sugar will be duty- and quota-free although there will be an adjustment to the standard EPA safeguard to take account of the sensitivity of sugar.

South Africa is marginalised, as the offer makes it clear that a number of competitive products originating in South Africa will nevertheless continue to attract import duties, but otherwise all African sugar exporters can, in theory, expect quota- and duty-free access to the EU by 2015. We note, however, the reference to ‘an adjustment to the standard EPA safeguard to take account of the sensitivity of sugar’, and suggest that this may prove to be a serious stumbling block in the medium to longer term. How all of this will play out remains to be seen, but it does offer hope for Swaziland and potentially Mauritius (although we have noted that Mauritius is unlikely to continue in

sugar production). Elsewhere in the ACP the Caribbean countries are generally higher cost producers, while Pacific the same comment applies to Fiji, thus potentially the African non-EBA countries have the most to gain.

Unanswered questions seem to relate to (a) how generous the transition arrangements will be made to assist non-EPA countries like Swaziland and Mauritius, and (b) the medium to longer term prospects for South Africa. On the latter, the EU seems clear that South Africa will be excluded, but this may or may not be an initial negotiating position as it seems likely that the mostly SACU-based configuration, one of six negotiating the EPA, currently includes South Africa as a party to these negotiations. The complicating issue of the TDCA seems to have been subsumed into the EPA with this configuration, and the whole process seems rather messy. Sugar does, however, have to be one of, if not the most important, market access question facing South Africa, and of all the African countries South Africa has the most potential gain from unfettered access into the EU.

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Annex 1: Estimated losses to countries exporting sugar to the EU

*Losses by ACP sugar-protocol beneficiary countries only**

	Protocol quota	Current earnings (€)	Earnings 2006-08 (€)	Earnings 2008/09 (€)	2009/10 and after (€)
Barbados	54,687.4	28,639,787	27,168,696	23,739,797	18,320,276
Belize	43,857.4	22,968,116	21,788,352	19,038,494	14,692,226
Congo	11,071.8	5,798,327	5,500,494	4,806,289	3,709,069
Côte d'Ivoire	11,071.8	5,798,327	5,500,494	4,806,289	3,709,069
Fiji	179,726.4	94,122,723	89,288,082	78,019,236	60,208,348
Guyana	173,271.8	90,742,467	86,081,454	75,217,309	58,046,069
Jamaica	129,017.4	67,566,408	64,095,840	56,006,450	43,220,826
Kenya	0	0	0	0	0
Madagascar	11,695.7	6,125,013	5,810,400	5,077,083	3,918,043
Malawi	22,635.2	11,854,063	11,245,176	9,825,948	7,582,798
Mauritius	533,728.3	279,513,490	265,156,200	231,691,438	178,798,967
St Kitts & Nevis	16,946.6	8,874,950	8,419,086	7,356,532	5,677,121
Swaziland	128,091.8	67,081,701	63,636,030	55,604,671	42,910,769
Tanzania	11,071.8	5,798,327	5,500,494	4,806,289	3,709,069
Trinidad Tobago	47,555.4	24,904,781	23,625,540	20,643,814	15,931,071
Zambia	0	0	0	0	0
Zimbabwe	32,853.0	17,205,139	16,321,392	14,261,506	11,005,770
Total	1,407,283.1	736,993,618	699,137,730	610,901,145	471,439,492

Source: Sugar ExecBrief 2006–07

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