



An AB Sugar company

# **2019 CONFERENCE**

FEDERATION OF SADC SUGAR PRODUCERS



**ILLOVO SUGAR AFRICA** is the leading sugar company on the African continent and has a diversified sugar and downstream product offering operating in

# 6 AFRICAN COUNTRIES

Produces in excess of **1.7 MILLION** tons of raw and refined sugar per year

Reduces Africa's reliance on imports through local production at 14 facilities

Brings in much needed foreign revenue through direct investment in capital projects

**ILLOVO** annually makes significant direct and indirect contributions to the African economies in which it operates



**HAVE ACCESS TO OVER**  
**378 MILLION**  
**PEOPLE IN OUR DOMESTIC AND**  
**REGIONAL MARKETS**





# SOCIAL IMPACT

**ILLOVO SUGAR AFRICA** has a significant positive impact on the rural communities in the areas in which it operates. The group employs 29 663 people directly and indirectly creates employment for an estimated further 41 780 people

In excess of **140 000** employees and direct dependents are impacted positively by **ILLOVO SUGAR AFRICA**

**ILLOVO PROVIDES PRIMARY HEALTHCARE** access to its employees and local communities through a network of clinics and hospitals

**ILLOVO IS INVOLVED** in a number of **EDUCATIONAL UPLIFTMENT** projects, including upgrades and administration assistance at more than 20 schools in the countries where it has operations

*\*Corporate citizenship: Independent, external socio-economic impact assessment 2016/17*





# ECONOMIC BENEFIT AND SHARED VALUE

In 2016/7 alone **ILLOVO** contributed an estimated **\$1.7 BILLION** to the global African economy by way of direct investment and indirect benefaction

Total Economic Impact	<b>\$ 1 691 m</b>
Revenue Generated	\$ 1 066 m
Salaries, Wages & Benefits	\$ 213 m
Taxation	\$ 100 m

EXTRAPOLATED ACROSS THE AFRICAN SUGAR PRODUCING INDUSTRY THIS WOULD HAVE AMOUNTED TO A CUMULATIVE ECONOMIC IMPACT IN EXCESS OF **\$10 Bn** (ISA production of 1.7 Mln tons vs continent 10 Mln tons)

*\*Corporate citizenship: Independent, external socio-economic impact assessment 2016/17, Illovo Sugar extrapolated for total market*



OVER THE **LAST 5 DECADES**  
PREFERENTIAL ACCESS TO **PREMIUM**  
**SUGAR MARKETS**, PREDOMINANTLY IN  
**EUROPE**, WAS AN IMPORTANT DRIVER  
OF **AFRICAN SUGAR PRODUCTION**

The establishment of **QUOTA-FREE ACCESS** to the EU for  
ACP/LDC in 2009 **INCENTIVISED** the **EXPANSION OF**  
**SUGAR PRODUCTION** in some beneficiary countries

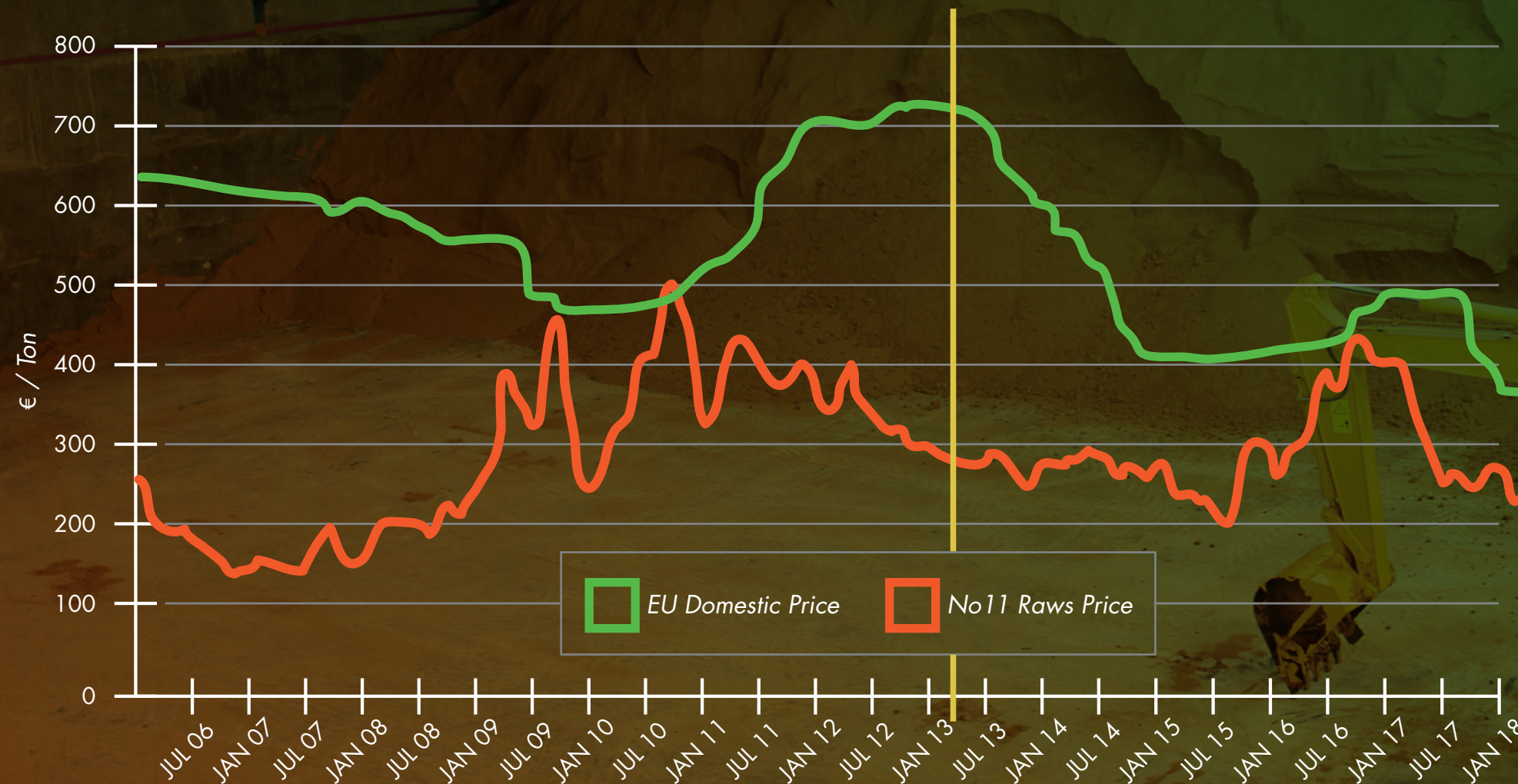
**EXPORT FOCUS** was on **BULK SHIPPING** of **RAW**  
**SUGAR** for **RE-PROCESSING** in the EU





# REFORMS IN THE EU SUGAR MARKET IN 2013 RESULTED IN A REDUCTION IN PREFERENTIAL MARGINS, MAKING EXPORT OUT OF AFRICA LESS ATTRACTIVE

## EU PRICE EVOLUTION since 2006



Simultaneously, increased EU domestic supply, together with reduced consumer demand has resulted in EU surpluses being exported into African sugar markets at dumped prices



# DOMESTIC AND REGIONAL SUGAR MARKET DEVELOPMENT WAS NOT PRIORITISED

**SURPLUS SUGAR PRODUCERS** bulk bagged supply of sugar for re-packing at point of purchase

**DEFICIT SUGAR PRODUCERS** concentrated on domestic sales, and sourced shortfall from the world market at dumped prices

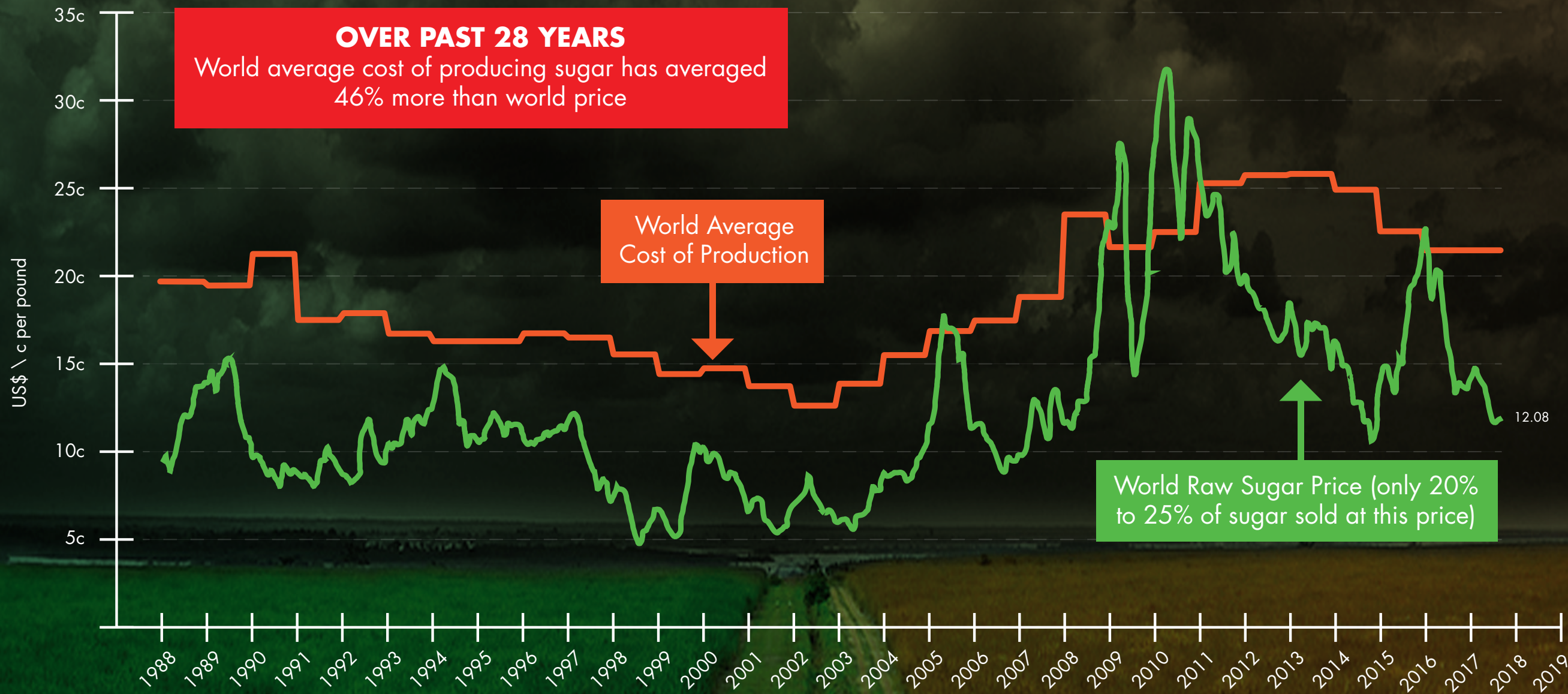
**REFINED SUGAR** for industrial use was mostly imported at subsidised price levels from the world market

**ROUTE TO MARKET REMAINED UNDER-DEVELOPED**





# The **WORLD RAW SUGAR MARKET PRICE** does not reflect actual cost of producing sugar due to subsidies and over supply



Weighted World Average Cost of producing one MT of sugar  
Cost of Production: "Sugar Cost of Production, Global Benchmarking Report I/MC International, Oxford, England, July 2014, Updated with Illovo Sugar Africa internal information 2015-17



# SUGAR MARKETS IN MOST SUGAR PRODUCING COUNTRIES ARE PROTECTED AGAINST IMPORTS

**SUBSIDISED OVERPRODUCTION** is **EXPORTED TO THE WORLD MARKET** enabling surplus sugar-producing countries to maintain jobs and economic activity at the **EXPENSE OF AFRICAN SUGAR PRODUCERS** and the countries in which they operate





**ONGOING  
EXPOSURE TO A  
DISTORTED  
GLOBAL SUGAR  
MARKET WILL  
IMPACT SEVERELY  
ON THE  
SUSTAINABILITY OF  
AFRICAN SUGAR  
INDUSTRIES AND  
THE SHARED VALUE  
THAT IS CREATED  
AS A RESULT** ▶

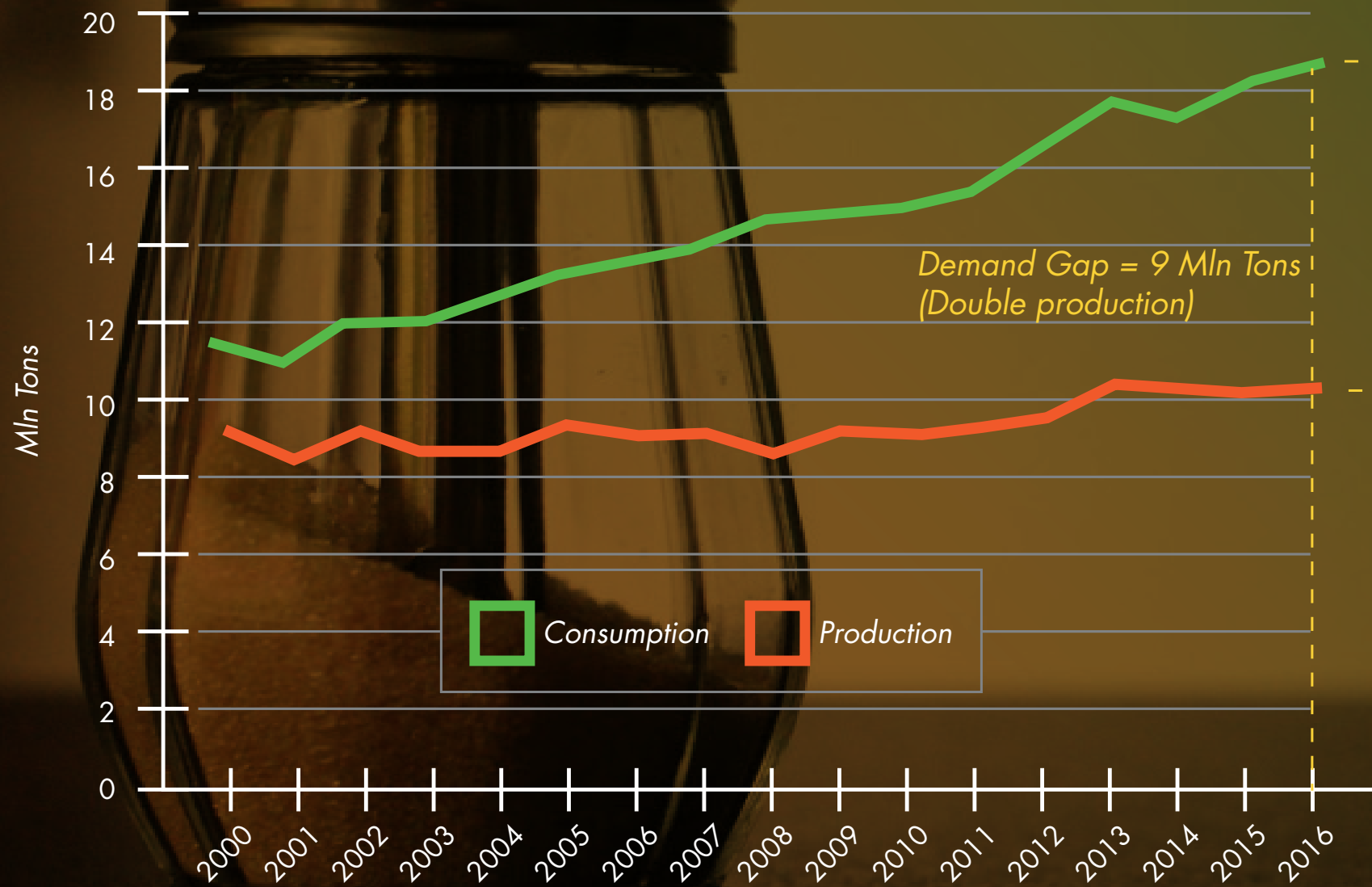


- ▶ Reduced economic benefit from sugar and downstream operations
- ▶ Farmer livelihoods impacted negatively
- ▶ Limited rural economic development and growth
- ▶ Limited investment, possible disinvestment
- ▶ Loss of taxes, loss of jobs



# AFRICAN CONSUMPTION EXCEEDS PRODUCTION

Sugar **PRODUCTION AND CONSUMPTION** in Africa



Source: ISO sugar statistics

African CONSUMPTION has **GROWN** more than **70%** over the past **15 years** (nearly double the annual growth of the rest of the world)

Despite the growth, the African per capita consumption figure of **16 kg** remains well below that of the global average of **23 kg**

Source: ISO report - May 2018

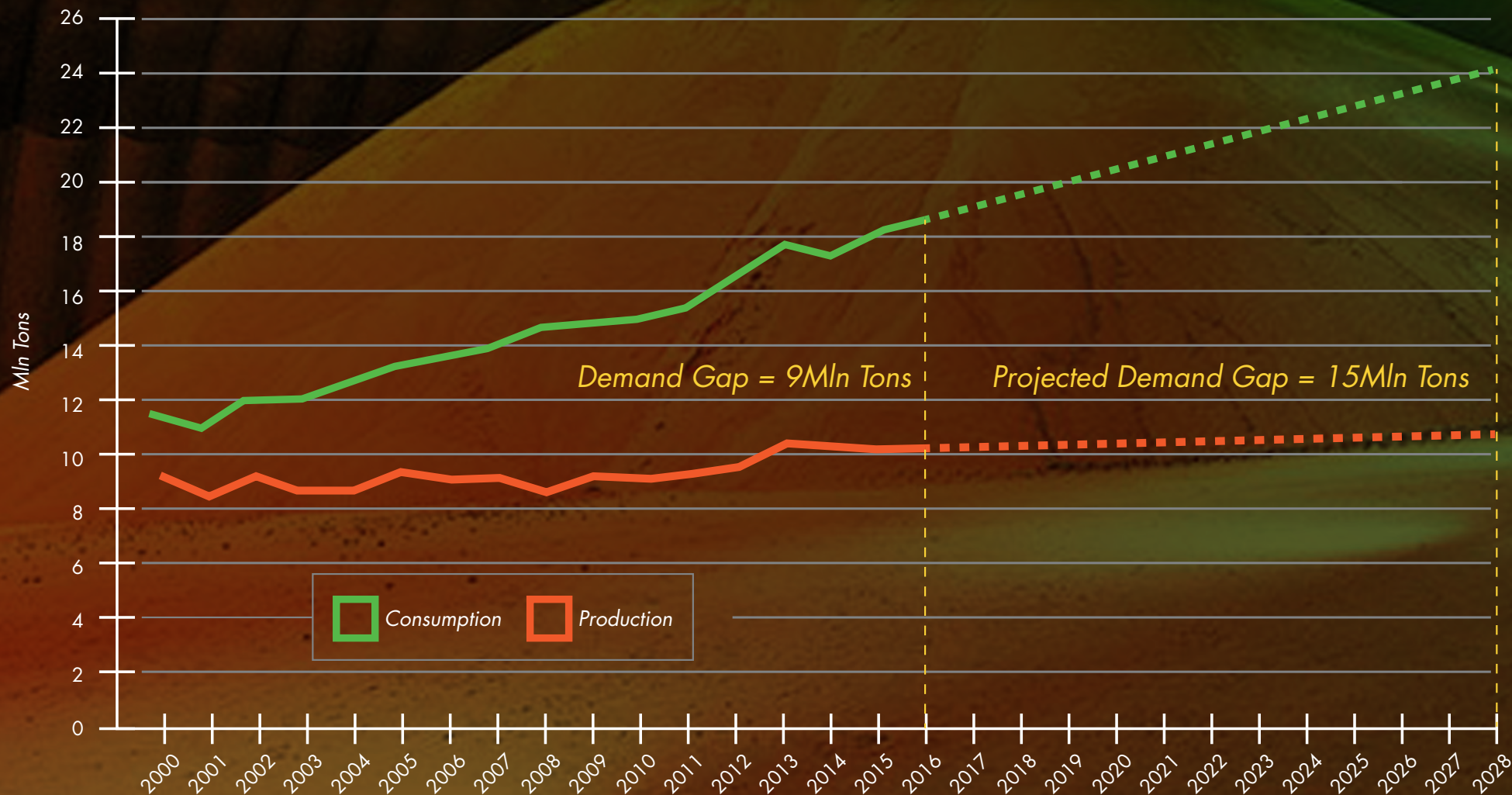
**\*DEMAND GAP OF 9Mln TONS (IMPORTED SUGAR) IS WORTH ALMOST \$9 Bn IN LOST ECONOMIC ACTIVITY**

\*Corporate citizenship: Independent, external socio-economic impact assessment 2016/17, Illovo Sugar extrapolated for total market



# PROJECTING THE CURRENT RATE OF CONSUMPTION GROWTH FORWARD MEANS THE AFRICAN CONSUMPTION DEMAND FOR SUGAR IS ESTIMATED TO BE 24 MILLION TONS BY 2028

## Projected **PRODUCTION AND CONSUMPTION** in Africa



Sub-Saharan Africa holds the **GREATEST POTENTIAL FOR SUGAR CONSUMPTION GROWTH** of any global region, with a current below average per capita consumption and above average population growth

THE ESTIMATED OPPORTUNITY COST IS NEARLY

# \$15 Bn

IN LOST ECONOMIC ACTIVITY

\*Corporate citizenship: Independent, external socio-economic impact assessment 2016/17, Illovo Sugar Africa extrapolated for total market accounting for future gap.

Source: ISO sugar statistics, projected forward 10 years



# WHAT COULD THE FUTURE HOLD?

Considerable **OPPORTUNITIES** for **INVESTMENT** in **AFRICAN SUGAR PRODUCTION** and **SUPPLY** exists in:

**DOMESTIC DEFICIT MARKETS** for direct consumption sugar as well as industrial sugar

**DIVERSIFICATION** into **ENERGY MARKETS** - Ethanol & electricity co-generation

Identifying and investing in sugar production in **NEW MARKETS** that are currently supplied with dumped sugar

African policymakers acting as a responsible collective will encourage African sugar producers to actively **INVEST** in Capital projects to grow domestic supply



# HOW DO WE DO IT

## REGIONAL TRADE PACTS

### SADC

- A FREE TRADE Area - entered into force in 2001
- Establishes FREE TRADE in goods between its 16 Member States
- All members retain their individual customs tariffs but allow duty-free access to other members of SADC
- As required by the WTO, substantially all trade is duty-free

### TRADE IN SUGAR

- SUGAR is treated as a Sensitive Product with a special protocol dealing with trade in sugar
- Provides for one-way access to SACU for non-SACU sugar producers – 46 000 tons
- NB PRINCIPLES:
  - “Surplus to deficit” supply
  - Co-operation in areas of common interest





# HOW DO WE DO IT

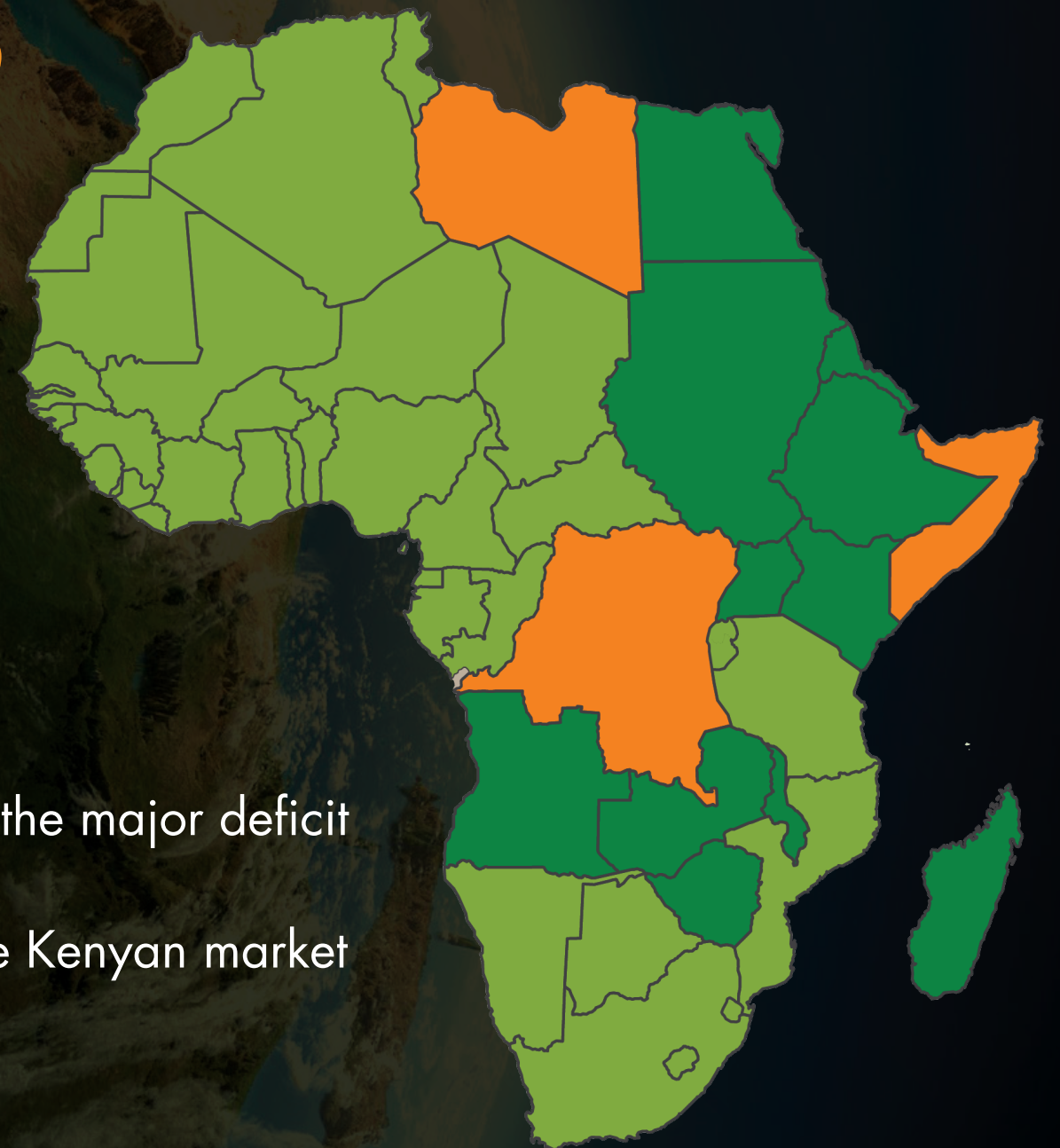
## REGIONAL TRADE PACTS

### COMMON MARKET OF EASTERN & SOUTHERN AFRICA

- A FREE TRADE area - achieved in 2001
- Provides for QFQF trade in substantially all products
- A MAJOR MARKET -
  - 21 MEMBERS
  - POPULATION of 540 million people
  - Global trade in goods WORTH US\$ 235 BILLION

### TRADE IN SUGAR

- Sugar essentially flows from surplus sugar producing members to the major deficit sugar markets in Kenya and Rwanda
- Kenyan safeguard provision provides for TRQ-based access to the Kenyan market





# HOW DO WE DO IT

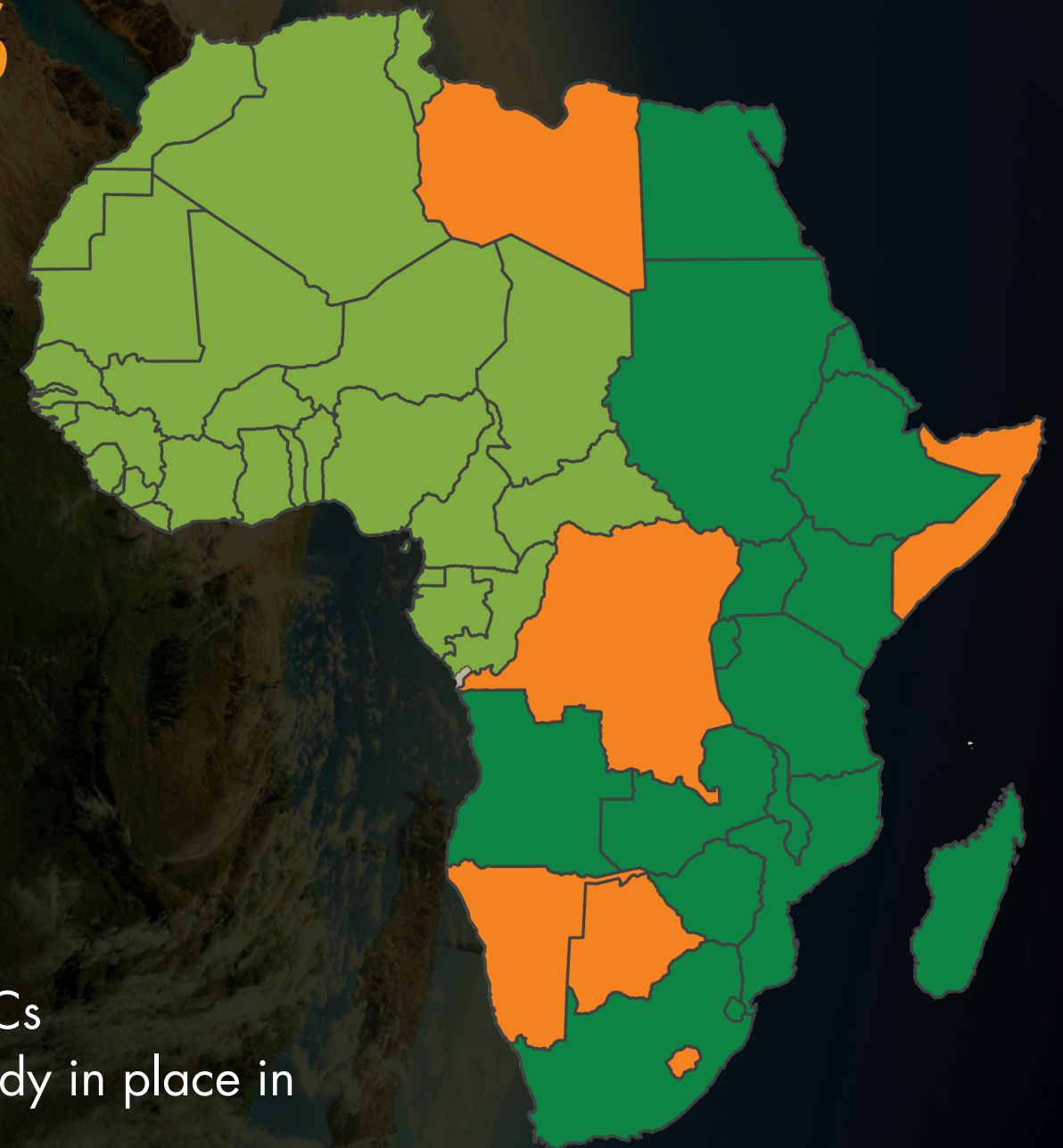
## REGIONAL TRADE PACTS

### THE TRIPARTITE FREE TRADE AGREEMENT

- The PARTICIPATING RECs are SADC, COMESA and the East African Community
- ESTABLISHED in 2015 – however, major elements of the Agreement are still UNDER NEGOTIATION (Trade Liberalisation, Rules of Origin)
- A VAST MARKET –
  - 27 MEMBER countries
  - A COMBINED POPULATION of more than 600 million people
  - A combined GROSS GDP of US\$ 1.2 TRILLION

### TRADE IN SUGAR

- SUGAR has been notified as a SENSITIVE PRODUCT by all 3 RECs
- No further TRADE LIBERALISATION in the TFTA beyond that already in place in SADC and COMESA is foreseen.





# HOW DO WE DO IT

## REGIONAL TRADE PACTS

### THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT

- 1.2 BILLION consumers
- GDP \$4 TRILLION
- ACTIVATED end May 2019
- Details still to be NEGOTIATED !
  - Trade liberalisation schedules to be exchanged in June 2019
  - Bilateral preferences to be negotiated

### TRADE IN SUGAR

- A sugar producing region -
  - Demand for 17 million tons
  - Production of 10 million tons
- Vast investment opportunities
- Trade liberalisation still to be negotiated





# ESSENTIAL REQUIREMENTS FOR SUCCESS

is aligning all stakeholders to common interests so as to drive sustainable positive economic outcomes

## A LEVEL PLAYING FIELD IN AFRICA IS ESSENTIAL

a continental recognition of the distorted nature of the global sugar marketplace, and global policies aimed at maintaining national industries by exporting unemployment to Africa

## MEASURES TO ESTABLISH EQUITY

border protection against dumped trade, adherence to preferential trade agreements, policymakers establishing an investment environment, aligning all stakeholders to common interests so as to drive sustainable positive economic outcomes, regional dialogue



# The **ULTIMATE INTENT** is **AFRICAN SUGAR FOR AFRICAN MARKETS**

**CREATING SHARED VALUE** that is sustainable and mutually beneficial to all **STAKEHOLDERS** (Government, Corporate and Community) is the **DESIRED OUTCOME**

