

In Numbers
2 million
The number of tons of sugar that South Africa produces annually

Business
The Big Read

Sunday Times

Sugar's sticky situation trips up CEO

Turmoil as tax, tariffs and price slump leave producers reeling

By PERICLES ANETOS

● With its share price languishing way below its 2014 peak and in an industry struggling against the backdrop of falling sugar prices, Peter Staude's 16-year run as Tongaat Hulett's CEO is nearing its end. The group has announced he will retire in April.

The announcement comes in a week in which an Investec Securities analyst called for the CEO's resignation after what he termed an "appalling" set of annual results. Headline earnings fell more than 37%, with the group's operating cash flow declining by over 28%.

Staude, who has been with the Durban-based company for four decades, reaches his retirement age of 65 this month. He said the primary objective in the succession process was ensuring a smooth transition during the selection and appointment of his successor.

Over the course of his tenure, a period marked by increased sales of sugar lands north of Durban, the 120-year-old company's shares almost doubled. Since Tongaat's September 2014 peak, however, the stock has shed 54.4% in value, compared to the All Share gaining 11.78%.

The analyst called the pace of Tongaat's land sales "painfully slow".

Over the past few decades, Tongaat has been carving up pieces of its land for high-end property development on the KwaZulu Natal North Coast, as the sugar industry struggled with low prices as a result of falling demand.

Apart from slack demand, international blunders and the effects of South Africa's new sugar tax have also hit sugar production, which began in the 19th century.

Durban and KwaZulu Natal have largely been shaped by the sector. This week its vulnerabilities were laid bare with the release of the biggest sugar producer's figures.

One reason for the poor performance was the continued rise in imports, displacing local producers and compelling them to sell their sugar on the international market.

On average, South Africa produces just under two million tons of sugar a year, making it the 12th largest producer in the world. Ten years ago it was a 2.5-million-ton industry.

The country's production is in excess of Southern African Customs Union demand, and is expected to remain so for some time.

Local sugar producers used to get \$0.25 to \$0.26 a pound compared to \$0.16 currently but on the international market producers are likely to get only \$0.13 a pound.

"Sugar in the world market is sold well below cost of production. On this basis, the South African industry does need an effective tariff to protect it against imports from



Sugar-cane fields near Umzimlozi in KwaZulu-Natal. If current conditions continue, experts say, farmers who cannot switch crops may well go under. Picture: Rogan Ward



Tongaat Hulett has announced that its CEO, Peter Staude, will step down in April after 16 years. Picture: Wilko Swegen

The cost increases will have adverse consequences for downstream commercial operators and the consumer
Martin Neethling
Business Executive, Groceries, Power Foods

sidises the farm gate price by 27%, through a number of support instruments including a fuel ethanol programme.

Investec Asset Management analyst John Thompson said if the tariffs came through it could fundamentally change the outlook for the industry.

But, while South Africa's R14-billion sugar industry's biggest short-term impediment are imports, it also faces a sugar tax.

In South Africa it is estimated that non-communicable diseases caused by a poor diet, such as diabetes and hypertension, account for 40% of all deaths.

Trikan said the impact of the Health Promotions Levy, which came into effect on April 1, may be far-reaching.

The tax is fixed at 24c per gram of the sugar in beverages with sugar levels above 4g per 100ml.

The sugar association expects that the sugar tax will reduce sugar demand in the

sugar beverage sector by 200 000 tons. Ilvo South Africa forecasts its sales in the beverage sector will fall by at least 30% owing to the tax.

Food producers such as Pioneer Foods said the impact of the sugar tax had been

negligible to date. But Martin Neethling, the group's executive for groceries, said the group's concern was that if tariffs increased "the cost increases will have adverse consequences for downstream commercial operators and ultimately for the consumer".

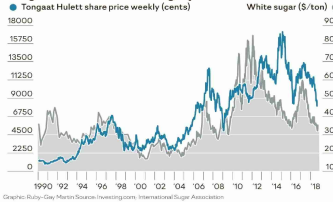
Neethling said Pioneer had introduced products with reduced sugar levels, adding that low sugar recipes were continually being developed and implemented.

Tiger Brands, whose products Oris, Roses and Energate are affected by the tax, said it was still looking into the detailed impact this would have on the business.

Trikan said should demand be reduced by 200 kilotonnes, 3 129 jobs could be lost. But he said if the tariff level was not reduced, the loss in jobs could reach more than 20 000.

The association estimates that the industry employs about 85 000 people, with a further 350 000 employed indirectly.

Tongaat Hulett and white sugar price



The industry needs an effective tariff to protect it... in a distorted market

Trix Trikan
South African Sugar Association executive director

If imports continue unabated, farmers who have the ability to, will switch crops
Mamongae Mahlare
MD of Ilvo Sugar

the distorted world market," said Trix Trikan, executive director of the South African Sugar Association.

Since the start of the year, the international price of sugar has fallen more than 12%.

Analysts predict that sugar producers were going to be close to breakeven from September 2017 to March this year.

Mamongae Mahlare, MD of Ilvo Sugar, said imports reduced the South African sugar industry's sales year-on-year by 27%.

"If imports continue unabated, against the backdrop of a recent two-year drought, farmers who have the ability to cultivate alternative crops will switch to other crops, while those that cannot will simply go out of business," she said.

The association has applied for the reference price — the price at which tariffs kick in — to be adjusted. If the reference price is raised, the prospects for the sector in the next 12 months will improve.

Globally, the sugar sector is a highly supported commodity. India, the world's second-largest producer of sugar, will spend \$231 million (R2.9 billion) this year to subsidise its farmers as the price of sugar continues to fall.

The US sugar industry enjoys industry subsidies estimated at 60% of the farm gate price (the price received by the farmer after marketing costs have been subtracted). The world's largest sugar producer, Brazil, sub-



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