Challenges and Opportunities for the African Sugar Industry

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Agriculture—and Sugar in Particular—in Africa

Sugar is an important commodity in the African context, and there are numerous challenges and opportunities that exist in Africa for that industry. Africa is quite a big place and it encompasses a large number of different countries, cultures, weather patterns and soil variety. I will restrict my presentation to the area which is know as the Southern African Development Community (SADC), which effectively stretches from just north of the equator, southward. This area is the main producer of sugar in Africa, with most of the remaining area of Africa consisting of importers of sugar.

When you consider the African continent at the end of the 1990s and look for the source of both survival and growth, the mind and indeed the statistics take you very quickly to agricultural economy. With very few exceptions, the economies of Africa are based on agriculture. In many cases, Africa is the right place to produce agricultural products, as we have been blessed with the appropriate natural facilities of weather, soil types and know how.

Furthermore, when you consider that there is really quite a long way to go to develop Africa’s economies, there is no better self-starter than agriculture. In Africa, agriculture is not the preserve of big business, and within my own organization there are many examples where single individuals have become businessmen and are farming on their own account.

Sugar cane production is an extraordinarily important sector of overall agriculture—and therefore of the total economy—of Africa. Sugar is produced in greater than 40 countries on the African continent and many of the countries have been classified as efficient cost producers in world terms. However, trade in sugar is somewhat skewed, to the extent that the SADC countries export 2 million tons more than they eat, whereas the whole of Africa is a net importer of some 2 million tons. This skew in the statistics results basically from the large quantities of imports into West Africa (Nigeria in particular), imports which largely revolve around refined sugar. Importantly, Africa is a net importer of sugar. If energy was applied and money made available, the southern part of Africa could produce another 2 million tons of sugar, and Africa could be self-sufficient in sugar.

When considering the sugar business, one should not restrict one’s imagination to only the growing and milling of sugar. From an economic point of view, one of the advantages of sugar is that it provides a superb multiplier of economic growth. Not only
is sugar a consumer of a large number of items (e.g., fertiliser, fuel, spare parts, chemicals of various kinds), but it also provides business opportunities with regards to the transport of both cane and sugar, merchandising and distribution opportunities, stevedoring opportunities, and even catering services.

Of course, the sugar business is both capital and labour intensive. On a typical sugar estate one hectare of sugar cane land will, on average, employ three people. These people will be responsible for fertilising, weeding and cutting the cane. One can then appreciate the very large number of people employed in sugar in Africa. Until very recently, all African cane was handled by labour, from planting, to cutting, to loading. However, with innovations and an eye on the ever important relationship between cost and productivity, there has been a fairly considerable swing towards the mechanical loading of cane.

Apart from the effect that the sugar cane industry has on domestic economies, one of its other major attributes is as an earner of foreign exchange. In Zimbabwe, foreign exchange earnings from sugar exports in 1998 amounted to Zim$3 billion, which ranked sugar in the top four or five of all exports. In Swaziland, sugar is the biggest earner of foreign exchange. There are other equally impressive examples across the African continent.

Sugar production is a long-term business, due to the capital-intensive nature of investment and the period over which sugar is grown. My company, the Tongaat-Hulett Group, uses a rough measure of replacement—capital cost of a sugar mill of about 1 million Rand per ton/per hour of crushed cane. This measurement indicates that a sugar mill capable of producing 150,000 tons of sugar per annum will cost approximately US$80 million to build, before taking into account support facilities such as housing, etc. By the same token, the cost of bringing one hectare of virgin land into cane production amounts to US$3,500 per hectare. Consequently, if one were to start a sugar estate to produce the 150,000 tons of sugar that I referred to, the total capital cost could amount to US$150 million for the whole infrastructure. This of course assumes that the site has already been serviced by roads, rail and, to a degree, power. Thus, this is a serious investment and these challenges have to be borne in mind and reasonable answers to the questions posed need to be made available. You will also appreciate that unlike the sugar beet, which is predominantly grown in the Northern Hemisphere, sugar cane is a long-term crop. Once the cane has been planted in the ground one would expect to cut it on eight occasions (depending on where you are). Much of the cost of establishing the cane is spent at the time of planting. Therefore it would be very unwise to plough cane out before the cane had run its full cycle.

It is with this profile in mind that part of the answer to the age-old question—why is the sugar industry so politically orientated? —is provided. Organisations involved in sugar production are heavily involved from the point of view of time and money and are capable of having an extraordinarily positive effect on a producing country’s economy. Little surprise, therefore, that there needs to be a positive, constructive and active
engagement between the sugar industry and a host government who has much to gain from a positive relationship.

There is a further complexity with regards to sugar. In order to put the challenges and opportunities that sugar faces into perspective let me provide an example. The world produces annually some 135 million tons of sugar, of which the majority is produced from sugar cane. Currently, there is an over production of some 4 million tons worldwide (i.e., sugar consumption amounts to some 130 million tons per annum). Consumption has been growing pretty steadily at 2-3 percent per annum for the last 20 years or so. Consequently, there remains to be brought into production some three million tons of sugar each year, if production is to keep pace with consumption. However, this raises the difficult issue of the appropriate incentives to produce sugar.

From the point of view of price, the world sugar market is distorted. Of the 135 million tons I referred to earlier, only some 20-30 million tons are traded on the world market through the New York Sugar Exchange. Much of the sugar is consumed domestically. A good example is India, which is one of the largest sugar producers in the world—they produce and consume some 12 million tons per annum. It only takes a fairly minor hiccup and the pendulum swings from importer to exporter by up to a million tons. The effect of that additional one million tons on the residual market of 20-30 million tons is obviously considerable. The world market for sugar is therefore a dumped market, and price does not bare any resemblance to either cost of production or a fair price for the product.

Domestic sugar prices are set by different methods all over the world. However, in only two cases is there zero tariff protection from the dumped world price for the local sugar producers. In most cases, the domestic price is set with an eye on the cost of production (which is almost always higher than the world price), import substitution, and the needs of the local sugar producing industry. Therefore, there is always a very important equation to be evaluated when it comes to the marketing of sugar and indeed its production. Will the sugar being produced find its way into domestic markets at a fair price? Will it be exported in terms of a sensible trade arrangement or will it find its way onto the dumped world market? Considerable effort is expended in avoiding the dumped world market, unless it is for marginal production.

In summary, the sugar price level is a complex matter and the world price for sugar as quoted by the New York Exchange is by no means a reasonable benchmark to judge price levels on.

Opportunities for Sugar

There are a number of opportunities for sugar in Africa, including narrowing the gap between production and consumption. That gap can be narrowed either by increasing investment in new facilities or by improving productivity. There are a number of sites on the African continent (i.e., Zimbabwe, Tanzania, Malawi, and Mozambique) where new green field opportunities exist for the production of sugar.
Investors will only take up these opportunities if they perceive the existence of the appropriate investment climate. Regrettably, in a number of places in Africa, governments have been slow to provide reasonable incentives to long term investors to ensure that investment takes place. Investors shy away from placing their money in growing areas blessed with superb climate and production facilities when there is uncertainty about intervention into domestic sugar prices. They also hesitate when the cost of water is being aggressively debated with the idea of making it prohibitively expensive, or when there is a less than enlightened view on the kind of tax incentives needed.

There are opportunities to ensure that sugar is produced and traded on a more cost-effective basis than is now the case. From the point of view of sugar production costs, many African countries are very cost effective. However, there is still work to be done to get the unit cost of production down even lower. There have to be smarter ways of running sugar factories to ensure that sugar for the industrialist or the domestic table is produced at a lower cost. There are enormous returns to be made in that area and work on new ideas is ongoing. There are also cheaper and better ways of growing cane, particularly with the improvement in varieties.

There are also opportunities for co-operation in research, where combined efforts can result in considerable improvements. The cooperation ongoing between the SADC sugar producing countries of Africa is with regards to trade, but it also extends to sharing research facilities without falling over the competitive advantages already ingrained in domestic economies. This research covers work on both the agricultural side and the sugar milling side of the business. The opportunity for meaningful advance exists if there is cooperation between producers.

Furthermore, there are advantages to be reaped from cooperation between sugar industries in the export of sugar, particularly in southern Africa. There are a number of countries—Malawi, Zambia, and Zimbabwe are classic examples—where their costs of moving sugar from the factory to the port are important elements in the value chain. It is only through cooperation that they can ensure that exporting costs are brought down to a reasonable level, which in turn maximises the advantage of low production costs.

There are many opportunities for significant growth in the African sugar industry. Much wealth creation can be achieved through innovative cooperation between industries and governments, the latter not by way of wasteful subsidies but by way of sensible partnerships.

Challenges for Sugar

The challenges facing the sugar industry in Africa are numerous. Three major challenges are:

a) Survival of the sugar industry and its ability to sustain growth
b) The availability of reasonably cheap water

c) The challenge of price levels against changing demands in world trade

**Survival/sustainable growth**

The multiplier effect of the sugar industry that I referred to is important and needs to be encouraged. If there is one supreme challenge that faces the sugar industry in Africa it is to ensure its ability to grow on a sustainable basis. The Asian crisis of 1998 raised the question of whether growth in developing countries is really sustainable. The majority of countries in Africa, with the exception of South Africa, are defined as either developing or least developed. Noted economist Paul Krugman raised the question of whether Asia’s growth was ever real, sustainable and solid.

When people talk about productivity they often mean, in actuality, labour productivity (i.e., the amount a worker can produce within a specified period of time, such as an hour or a year). Over the long run, labour productivity and economic growth are virtually synonymous. American workers are roughly seven times as productive as they were a century ago; that is why real wages and average family income in the US are also roughly seven times what they were in 1900. In Asia, labour productivity has grown almost as impressively as anything else. But the question is whether it has been done the right way. Raising labour productivity should not be a matter of giving labour more capital to work with; it has to be the result of improved technology.

There have been cases where high economic growth is not explained by large increases in overall productivity. Work undertaken by Boston University’s Alwyn Young found that Singapore had mobilised far more resources than Hong Kong (through extremely high rates of investment), but that it had grown no faster. This suggests that those resources have not been used very effectively. Another study found that Singapore’s growth was achieved through a massive rise in inputs rather than a growth of efficiency, a scenario that was actually typical of the Asian tigers. The observation was that measuring factor productivity, rather than growth, only brought the Asian performance down “from the heights of Olympus to the plains of Thessaly.”

In hindsight, examination of the World Bank’s own estimates for Asian economies indicate that they were not closing the productivity gap—and that therefore their growth was not sustainable. Another example is the USSR in the 1950’s, when dramatic increases in the economy were largely attributed to huge investments undertaken in the controlled economy.

Consequently, it has been recognised that unless growth created by straight investment can be complemented with productivity growth, perceived progress will lead to diminishing returns and the growth will not be sustainable.

This is the major challenge facing the African sugar economy. I mentioned the massive investment of cash and energy that is being employed by a number of sugar industries in Africa. However, unless these efforts can be complemented with
productivity by the management and governments concerned, we will not sustain the growth that these economies need. The lesson therefore is that it will not be sufficient to “throw money” at the opportunity and assume that it will be sustainable. This is a short-term perception. It is vital that as the African agricultural giant looks to the next century, it picks up the challenge of sustainable growth, from small workshop innovations to macro-economic state policy.

From a practical point of view this not only extends to an improvement in training, but to the whole question of innovative thinking which can move industry forward in a growth pattern. Consequently, it is important to ensure that price levels are sufficiently attractive to encourage new entrants into the industry, industry structures take action to encourage growth, exchange rate levels are appropriate, interest rate structures are correct, and economic policy is appropriate to the region where it is implemented.

Cheap water

Africa is regrettably a dry continent and is very often ravaged by drought. In the course of two years earlier in the 1990s, we saw a sugar area of some 30,000 hectares, producing 5 million tons of cane and employing 20,000 people, reduced to a dustbowl. Production fell to 200,000 tons and employment to only 2,000 people. However, Africa is extraordinarily resilient, and with recent good rains, Hippo and the Triangle will this year produce in excess of 600,000 tons of sugar. There are also expansion projects in the pipeline.

Nevertheless, sugar is a thirsty crop, and the provision of water storage is essential to its production. Water storage dams are expensive and it is very often impossible for private enterprise and individual companies to erect them. It is therefore a challenge for sugar companies and growers across the continent to make the appropriate arrangements to have water stored at costs reasonable enough to enable them to underwrite their enterprises and expand their operations. It is the responsibility of private enterprise to come to reasonable arrangements with governments, to make use of the water that is stored and to pay for that water on a reasonable basis. However, it is the obligation, I believe, of governments and international lending organisations to apply the necessary money to build the dams and canals, as these are basically national assets which need to be provided to enable the agricultural economy to proceed.

There are two good examples in this region of how such partnerships have worked to good advantage. In 1960, a massive dam in the southeastern corner of Zimbabwe was constructed with government funds, aided by some seed money supplied by the local sugar industry. Today, Lake Mutarikwi is the cornerstone of what is probably the most sophisticated irrigation scheme in the world, and one which underwrites the massive investment of sugar in the south-eastern corner of Zimbabwe. Nowhere else has water from one massive river scheme been moved into the basin of another, by way of canals and weirs, as has happened in the lowveld. This partnership between government and private enterprise was essential to achieving the employment and growth that has been recorded. Similarly, the Coromana Dam in Mozambique was
built with the assistance of the Italian Government in the late 1980s. A partnership has emerged between the Government of Mozambique and the new sugar industry in that country in which the water from Corumana is used to supply rapidly expanding cane lands and the Xinavane Mill, 140 kms from Maputo.

The challenge of ensuring that appropriate water is available is a matter on the daily agenda. What puzzles me is why this is a challenge to private enterprise when the benefits of such a partnership should be so obvious to governments and development agencies. A better understanding of the benefits which organised agriculture can bring to African economies is perhaps one of the greatest communication challenges we face.

SADC and trade

The events of the last two years have focussed the attention of many on the fact that the world economy has turned out to be a much more dangerous place than we had imagined. Over the last few decades there has been increasing emphasis in economic thinking on the supply side of the economy. Meanwhile, much of the crisis we have seen in recent times has involved the problem of generating demand. Several developing countries have experienced recessions that have undone years of work and economic progress. In a world where there is not enough demand to go around, the case for a free market is hard to sell. This is a very specific problem for the sugar economies of Central and Southern Africa.

To put the trade challenge into perspective, the SADC region produces some 4.5 million tons of sugar each year. The same area consumes only 2.5 million tons. Consequently, there is a surplus of 2 million tons. This surplus is exported essentially to two different markets: a substantial portion finds it way into the EU through the Lomé Convention, and some of it finds its way to the United States in terms of the quota system in place in that country. The balance is exported onto the world market.

The problem for the SADC countries is that the vast majority of them are, in fact, the most efficient sugar producers in the world. According to Landell Mills, the well-known British Agricultural economist, Zimbabwe, Swaziland and Malawi (and soon Mozambique) are the most efficient producers of sugar in the world. The least efficient producer in the region is South Africa, but even that country is the tenth or twelfth most efficient producing country in the world. Consequently, with a movement towards transforming SADC into a trading block, there is a very real danger that these efficient countries will compete in local markets to such an extent that price levels will be driven down to corrupt world prices.

In order to put sugar into perspective, let me turn briefly to the question of SADC aspirations ahead of the WTO meeting. Discussions in Southern Africa have reached the conclusion that the new multilateral trade negotiations present a significant opportunity to pursue our common objective of integrating the Southern African regional economy into the global trading system in a more sustainable and beneficial manner. In order to achieve this, commitments have been made to conclude a SADC free trade agreement,
which will deepen the process of regional economic integration and promote regional development. It is believed that regional economic integration in Southern Africa will establish the necessary prerequisites to reverse marginalization and promote the region’s integration into the global economy. In order to achieve this, decisions must be based on a balanced agenda that accommodates the concerns and interests of all the SADC states. The development of the agricultural sector in SADC countries will be crucial to trade growth, employment, social cohesion and environmental protection.

The continuation of the reforms that I have described must lead to improved access to world markets for SADC agricultural exports, reductions in domestic support in the developed countries, and the elimination of export subsidies which displace agricultural exports from SADC countries or negatively affect their domestic production.

The Executive Director of the Philippine Sugar Millers Association noted recently that it took the GATT fifty years to dismantle subsidies and trade barriers in industrial goods. Yet, today we still see trade distortions through the use of government subsidies and non-tariff barriers, as well as the violation of accepted social, cultural and environmental norms. In the case of agriculture, there is a desire to achieve in ten years what the industrial sector could not accomplish in fifty years. However, in this haste we must ensure that care is taken to consider specific problems in areas, particularly in the agriculturally dependent developing world, in order to ensure that these fragile economies are not damaged by a broad and hasty approach to achieve what is perceived as progress.

*The Internationalist* magazine recently published the following winners and losers from GATT; “The European Union tops the bill at US$80.0 billion gain followed by China, Japan, the USA, upper income Asia and other industrialised countries. Africa, however is at the bottom of the pile with a US$3.0 billion loss of which Sub-Saharan Africa accounts for US$1.2 billion.”

The possibility of not achieving the GATT’s stated goals was discussed by Dr. Herman Daly of the World Bank in an article published (back in 1993) in *The Scientific American*: “National self-sufficiency is a goal commonly overlooked by free traders. Just as nations are better off having their own symphony orchestras and cultural offerings, they should also keep their vital industries local. When convenient, balanced international trade should be used, but it should not be allowed to govern a country’s affairs at the risk of environmental and social disaster. The domestic economy should be the dog and international trade its tail. GATT seeks to tie all the dogs’ tails together so tightly that the international knot would wag the separate national dogs.”

Experience with the outcome of the Uruguay Round of GATT has raised concerns in the sugar industry about the future. Australia is an example of a country that argued strongly for trade liberalisation and decided to back its stance by removing all tariff protection. In the last eighteen months, the price of world market sugar has fallen from 12.5 US cents per pound to below 4 US cents per pound and (subsequently rising to 7 cents) severely affecting the Australian industry. There is the strong possibility that the environment created by the last round of GATT negotiations will cause a contraction of
production in Australia, a sugar producer considered to be efficient and against which the rest of the world’s sugar industries measure themselves. This experience creates caution in SADC about exposing our sugar industries to an unprotected environment in the event that less efficient producers are not similarly exposed.

In my view, it would be sensible for the SADC countries, therefore, to approach the forthcoming WTO negotiations with the following objectives:

1. Support the views of long-term liberalisation of trade in sugar and sugar-containing products, resulting in all consumers paying the same or similar prices. This implies the progressive elimination of all trade-distorting subsidies and a steady improvement of market access opening of all markets to international competition.
2. Be mindful of the uneven impact of the Uruguay Round of GATT. The withdrawal of protective measures must be co-ordinated. There should be no requirements for any industries to be exposed to international competition before every industry is so exposed.
3. Furthermore, when considering all the SADC participants, it is important not to undermine access to non-reciprocal preferences that the current policies of the EU and the US make possible. Any change to non-reciprocal preferences should be part of the concerted and co-ordinated change to the protective measures currently in place in all sugar-producing countries.

There is a specific case to be made for the question of timing and sugar’s equal treatment in the world trading system. In preparation for changes in the sugar trade and with an eye towards growth, SADC has been inspired (to the extent that the sugar industries cooperate) to form a sugar protocol within the overall SADC initiative. This is designed to preserve the well being of the industry and allow it to grow. If such action were not taken, the existing SADC sugar industry would be threatened by cross-border trade to avoid having to export at distorted low world prices.

The situation was recently summed up by South African Minister Alec Erwin when he said, “There can be no merit whatsoever in different countries trying to advance their sugar industry at the expense of others. Sugar will have to be accommodated under a special protocol in future SADC free trade areas.” The protocol states that:

- All sugar industries and all governments in the region must commit to it;
- Any sugar surplus above domestic needs must be exported out of the regions and
- An internal system must be introduced, allowing some duty free access into each other’s domestic market.

To this end, South Africa, being the most advanced economy in the region and with the highest domestic price for its sugar, has opened its market to other countries in the region. Agreement has already been reached within the SACU region relating to Swaziland, and negotiations are now progressing with other countries—such as Zimbabwe and Mozambique—with the intention that the Protocol be in place by the end of 1999. The concept is that as the SADC trading zone develops, sugar will be able to
move freely within the area as prices converge. However, through the disciplines of Protocol, sugar will move according to the development needs of the region and any surplus sugar that has been efficiently produced will be exported out of the region. Therefore, the Protocol is part of a process and not and event in itself.

This Protocol will in no way disturb the sugar currently being exported from the region under the US and EU arrangements, as these trade arrangements are appropriate contributors to the development of the region at the moment. Whether these arrangements can, or should be sustained in the long term depends on actions taken elsewhere, which may bring about the dismantling of subsidies in places like Europe and the US. If this occurs, it will have the effect of ensuring that sugar is produced in the most cost efficient regions of the world. With the removal of subsidised production, world prices should rise to at least the cost of production of the most efficient producers, withdrawing the need for arrangements which are presently in place and which are so necessary whilst this distorted trade continues. It has been a considerable challenge to ensure that we bring sufficient inspiration to bear so that equitable trading patterns emerge which do not destroy productive industries.

Conclusion

I have attempted to explain the importance of sugar in Africa. I have tried to draw attention to the fact that as investment flows into African agriculture it will take more than just money to achieve sustainable growth. I have also attempted to stress the importance of a special case being made for sugar in the context of any new trade deals.