REPORT NO. 463

INCREASE IN THE DOMESTIC DOLLAR-BASED REFERENCE PRICE FOR SUGAR FROM US$358/TON TO US$566/TON

The International Trade Administration Commission of South Africa herewith presents its Report No.463: **Increase in the Domestic Dollar-Based Reference Price of Sugar from US$358/ton to US$566/ton.**

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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

..19... /..02..../ 2014

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Synopsis

The South African Sugar Association (SASA), on behalf of its members, applied for an increase in the dollar-based reference price (DBRP) for sugar from the existing US$358/ton to US$764.34/ton. SASA's request is that the DBRP be substantially altered from the current methodology used to determine the variable tariff formula, and instead be based on the domestic sugar industry's own cost of production and desired return on investment.

Using the world sugar price of US$440.40/ton as at 3 January 2014 and at an exchange rate of R10.47 to the US$, SASA's request would result in a specific duty of 339c/kg (equivalent to 66% *ad valorem*).

As reason for the application, the applicant submitted that it needed a fair level of protection, based on the importance of the South African sugar industry in the South African economy and its contribution to sustainable socio-economic development. It submitted that increasing imports affect the financial sustainability and competitive position of the domestic sugar industry.

The Commission considered four scenarios in making an appropriate tariff determination. Before considering the four scenarios, the Commission firstly considered an appropriate, evidence-based distortion factor in the global sugar market, due to subsidies. The Commission drew on information obtained from a report by Patrick H Chatenay, prepared for the American Sugar Alliance, titled: "Government support and the Brazilian Sugar Industry", dated 17 April 2013. It was found that the Brazilian sugar industry benefits from US$2.5 billion per annum of direct and indirect government incentives, representing 7% of the price of Brazilian sugar.

The above distortion factor was decided on as it was evident from the latest LMC data, specific to the sugar industry, that the average world sugar price has, since the Commission's last review, increased to such an extent that it now exceeds the average world cost of production. In the last review, the Commission determined that the difference between the weighted average global cost of sugar production and the much lower average global sugar price was indicative of the distortion in the global sugar market. In determining an appropriate current distortion factor, the LMC data was not helpful and the Commission instead relied on the above-mentioned report on the Brazilian sugar industry.