GROWTH AND DEVELOPMENT IN THE SUGAR TO CONFECTIONERY VALUE CHAIN FOR SOUTH AFRICA AND ZAMBIA

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Outline

- What’s the sweet story?
- Objectives
- Methodology
- Regulatory Frameworks
- Findings
- Policy Recommendations

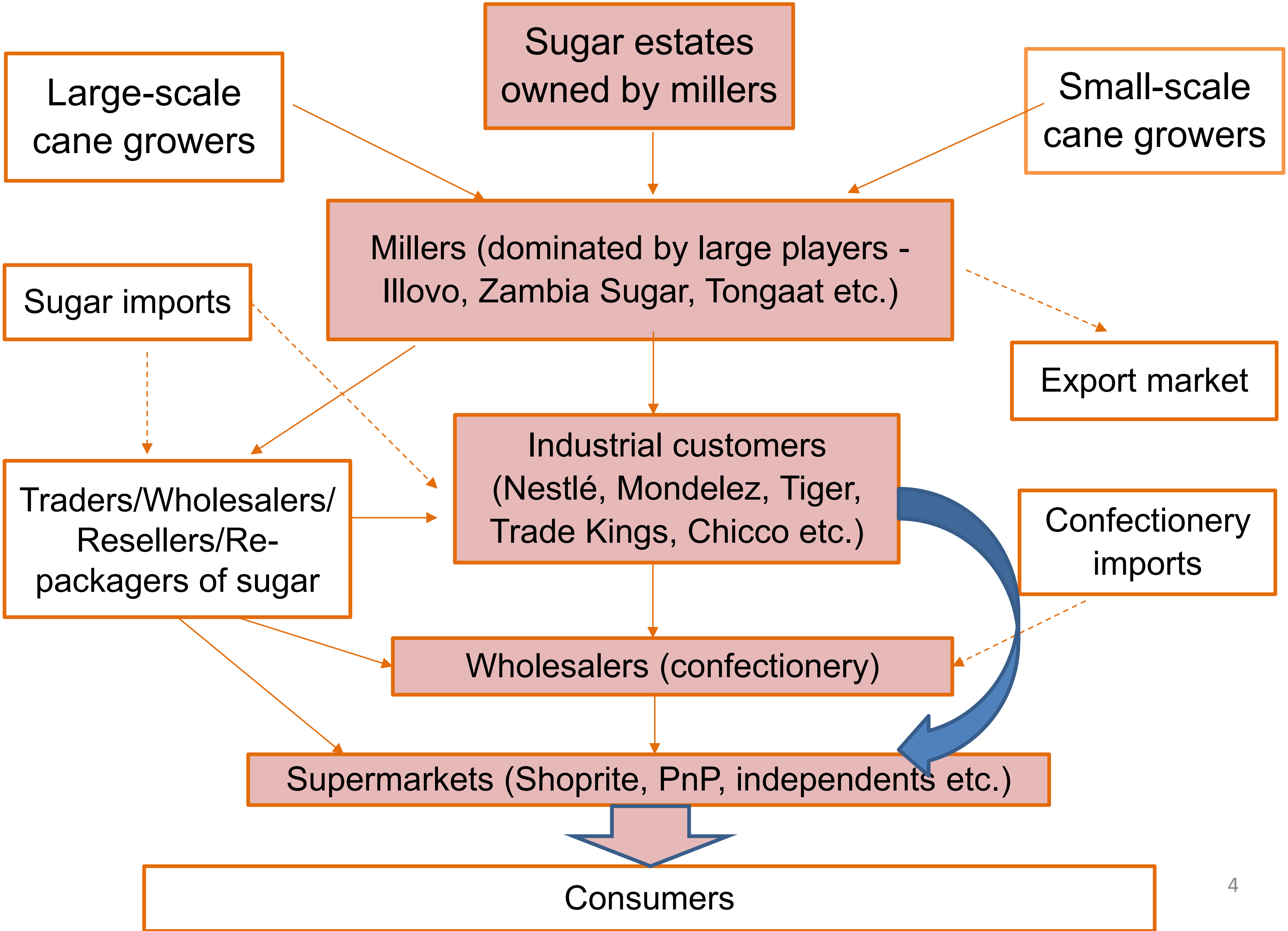
What is the Sweet Story?

- Rising demand and the growing appetite for the consumption of processed foods – Spurred by: Urbanisation; Middle class and liberalisation of economies
- All resulting in the spread of supermarkets
- Opens up opportunities for industrialisation, esp. when domestic firms are able to access regional markets

Sugar and Confectionery Industries - SADC

- SADC sugar trade surplus (2015) - $403m
- Low cost production of sugar (e.g. Zambia)
- Yet, trade deficit in sweets in SADC (2015) → $85m
- SA & Zambian firms have capabilities to replace deep-sea imports in the region:
  - Sweets trade surplus → Zambia (2015): $7m; SA (2016): $30m
  - Biscuits trade surplus (2016) → (SA): $15m

Links from Millers to Producers & End-Consumers



Overall Objective

- Highlight potential for mutually beneficial growth and development opportunities in the sugar to confectionery value

Specific Objectives

- Develop shared understanding for the challenges impending the expansion of industrial activities
- Analyse the performance and competitiveness of the regional value chain and potential upgrading
- To identify sectoral level industrialisation strategies for the two countries

Research Questions

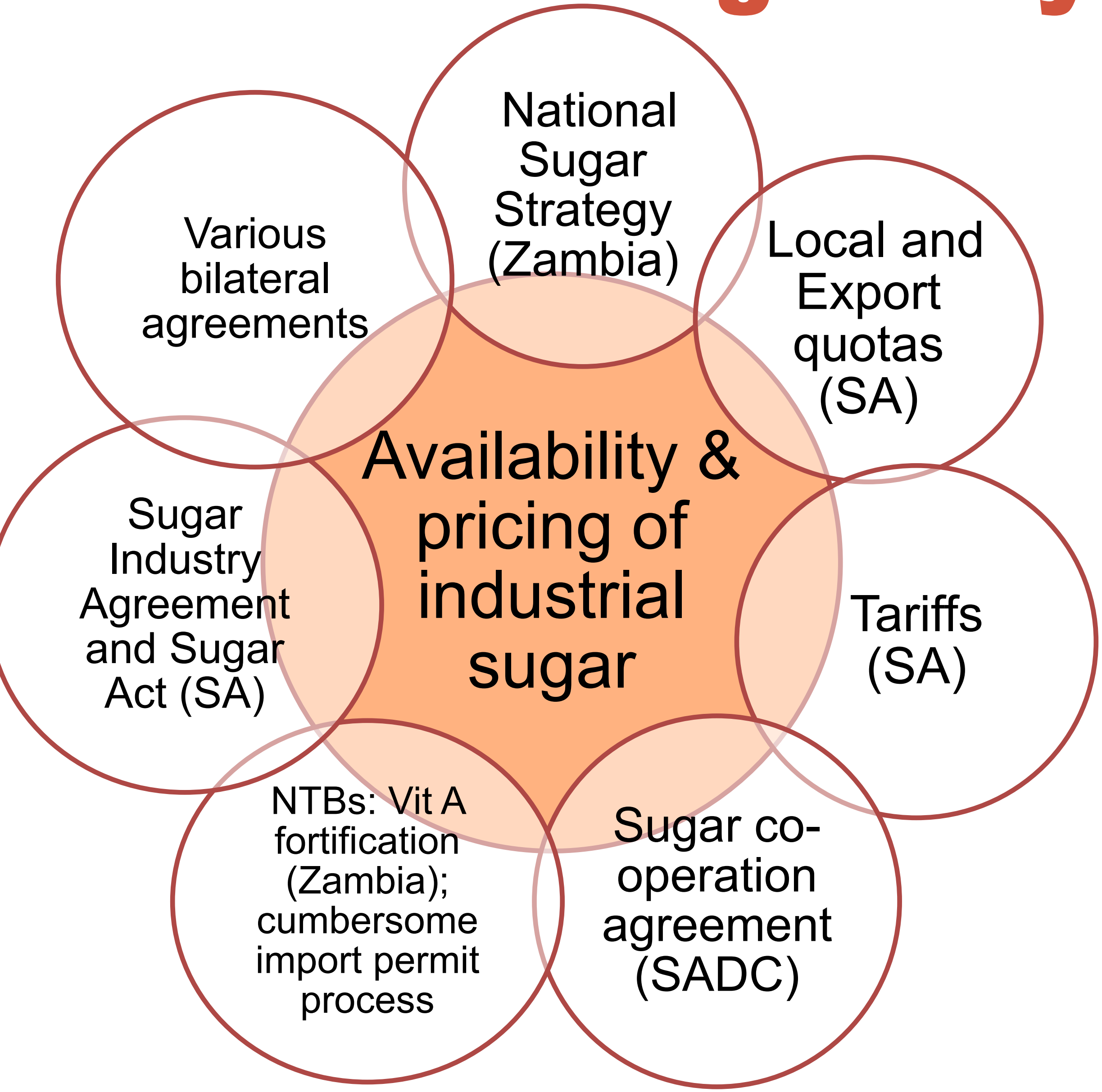
- How is the sugar to confectionery value chain organised in terms of inter-firm linkages, governance and regional logistics?
- What are the key factors which enable regional confectionery producers to supply regional supermarkets chains?
- What constraints exists which inhibit regional trade and investment?
- What levers of industrial policy are most effective in deepening and expanding linkages in South Africa and Zambia

Methodology

- Global Value Chain framework - adapted for regional dynamics to understand constraints and linkages to regional industrialisation
- Applied a qualitative data collection method to map the value chain and identify the core competences of the firms
- Data from both primary and secondary sources was utilised from which a principal dataset was obtained
    - Primary data – Sugarcane millers (upstream) and sweets and confectionery producers (downstream)
    - Secondary data – United National statistical databases, Comtrade and Trademap, Statistics South Africa, Central statistics Office Zambia, SADC trade documents

Findings…

Trade and Regulatory Frameworks



- Sugar is a ‘sensitive’ product
- Protected by special dispensation at national & regional levels
- Affected by a complex interlace of national & regional policies
- There exits a policy misalignment in the region
- National interests tend to override regional interest
- Benefits appear to not trickle down the value chain; only protect millers upstream and farmers

Mug half full or half empty?

Significant investments at milling, trading, confectionery production levels:

- e.g. Zambia Sugar: USD90m in refinery plant (2016); Trade Kings of Zambia set up in SA (2010) incl. R100m in automated barcoding machinery; Aldor (Colombia) started production in SA (2011) etc.

Zambia: high domestic sugar prices despite low cost of production

- abuse of dominance by Zambia Sugar; on-going investigation by competition authority (CCPC)
- Trade Kings is investing elsewhere (in SA, Zimbabwe)

SA: Final price set at the discretion of individual millers

- but regulatory framework that sets sugarcane price provides focal points to coordinate pricing
- downstream producers struggle to remain competitive with imports of confectionery products

Route to Market Challenges

- Medium-sized players sell to wholesalers, who on-sell to independents (90%); only 5-10% to supermarkets, and mainly through franchises
- Hard to negotiate trading terms with supermarkets:
  - High listing/support fees:
  - Various rebates (advertising, promotions etc.)
  - Long payment periods; individual barcoding requirements
  - Non-standardised private standards across supermarkets

- Yet, producers have invested in capabilities and are '*retail ready*'
- Concerns of lack of prompt payment
- Accreditations and standards are expensive (HACCP etc.)
- Access to finance (for advertising, merchandising & packaging); serious shortage of technical skills

Policy Recommendations

Pricing of Input Sugar

A cost-benefit analysis along the full value chain of the various national and regional policies and trade agreements specifically affecting sugar in Zambia and South Africa

Access to finance

major constraint faced by producers that hinder the acquisition and enhancement of technology and production techniques required to develop supplier capabilities

Routes to Markets

regional code of conduct to govern the relationship between suppliers and supermarkets

Harmonisation of Standards & Policies in regional markets

non-harmonisation of standards across the region

Develop Capabilities and Build Capacity

requires commitment from both government and supermarket chains to build capacity of suppliers


Thank You
Thank You
Thank You!!!!
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