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
- Policy & 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

- Large-scale cane growers
- Small-scale cane growers

Sugar estates owned by millers

Millers (dominated by large players - Illovo, Tongaat, TSB, Zambia Sugar, etc.)

Industrial customers (Nestlé, Mondelez, Tiger, Trade Kings, Chicco etc.)

- Traders/Wholesalers/Resellers/Re-packagers of sugar
- Sugar imports

- Wholesalers (confectionery)
- Export market

Confectionery imports

Supermarkets (Shoprite, PnP, independents etc.)

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 exist 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)
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 – Centre of excellence.
Thank You
Thank You
Thank You!!!!