



**NATIONAL COMPETITIVENESS COMMISSION**

*Enhancing Zimbabwe's Global Competitiveness*

## **SUGAR PRICE MOVEMENTS ANALYSIS**

**27 MAY 2022**

## 1.0 SUGAR PRICE MOVEMENTS

- 1.1 The price of sugar in Zimbabwe has been increasing exponentially since January 2022, due to a confluence of reasons which include exchange rate distortions, disruptions in the supply chains of fuel and inputs such as fertilizers, due to the Russia Ukraine war and the Covid 19 pandemic, among other factors.
- 1.2 The spate of increases in sugar prices is weighing on affordability by consumers and impeding on competitiveness of the industry as well as the downstream industries like pharmaceuticals and food & beverages. The sugar industry currently meets 85% and 100% of the local market requirements for refined and brown sugar, respectively. Table 1 below shows sugar price movements, per tonne, from January 2022 to 18 May 2022.

**Table 1 below shows sugar price movements from January 2022 to 18 May 2022**

Product	Z\$/ton w.e.f 17 Jan 2022	Z\$/ton w.e.f 18 Mar2022	Z\$/ton w.e.f 24 Mar 2022	Z\$/ton w.e.f 23 Apr 2022	Z\$/ton w.e.f 29 Apr 2022	Z\$/ton w.e.f 7 May 2022	Z\$/ton w.e.f 16 May 2022	US\$/ton w.e.f 18 May 2022
Raws (ex-factory)	102,200	121,700	131,700	160,300	184,300	201,400	223,400	US\$649.99
<b>Sunsweet (Delivered price)</b>								
Table Sugar	215,000	256,000	277,100	337,100	387,500	422,956	434,100	US\$1,336.47
Industrial Sugar	154,000	183,400	198,500	241,500	277,600	303,000	336,400	US\$978.86
<b>Refined Sugar (delivered price)</b>								
Table Sugar	228,200	271,700	294,000	357,900	411,400	423,400	469,000	US\$1,450.71
Bottler's Grade Sugar	156,500	186,300	201,600	245,400	282,100	290,400	322,500	
Manufacturer's Grade Sugar	166,000	197,600	213,800	260,300	299,200	308,000	342,000	

source: ZSS & NCC compilation

- 1.3 Sugar prices increased by more than 100% from January 2022 to 18 May 2022, and this has a knock-on effect to sectors on such as food & beverages and pharmaceutical sectors which depend on sugar as a raw material used in confectionary, alcohol, soft drinks, candy, cordials & juices and cough syrups, among others.
- 1.4 The changes in prices were impacted by movements in cost drivers, and to explore how they are impending on competitiveness of the sector, the Commission analysed the impact of cost driver movements.

## **2.0 `ANALYSIS OF COST DRIVER MOVEMENTS IMPACT ON SUGAR PRICES**

- 2.1 The Sugar industry uses cost recovery model when it comes to pricing and is affected by the following cost drivers:
- Fertilizers & herbicides.
  - Fuel;
  - Coal;
  - Transport for cane and sugar (both road & rail);
  - Labour; and
  - Consumables (tyres, chemicals, spares, packaging and PPE)

2.2 Table 2 below shows percentage increases of cost drivers since January 2022.

**Table 2: Cost drivers movements since January 2022**

Cost Driver		Jan	18 March	24 March	April	May
Fertilizers	Urea	57%	49%	49%	23%	31%
	MOP	27%	-			
	SSP	12%	-			
	Gypsum	26%	-			
Herbicides		-	47%	47%	15%	10%
Diesel		-	10%	10%	6%	-
Coal		-	27%	-	-	-
Garage Spares		-	22%	-	-	18%
Tyres		-	22%	-	-	15%
PPE		-	26%	-	-	-
Packaging		-	32%	-	54%	-
Rail Cane Haulage		-	-	-	-	10%
Sugar Haulage		-	29%	-	5%	-
Mill Chemicals		-	-	-	31%	7%
Milling Spares		-	19%	-	20%	6%
Salaries & Wages		-	-	-	15%	-

2.3 Fertilizers, herbicides and diesel are the most notable cost drivers that have been constantly increasing gradually on a monthly basis. To manage market shocks, the sector is increasing prices gradually and avoiding a once-off pricing mechanism which would have sent the market into pandemonium.

### *Fertilizers & Herbicides*

- 2.4 On average, one hectare of sugarcane requires 9 bags of fertilizers ((Muriate of Phosphate (MOP), Single Super Phosphate (SSP) and top dressing). Thus, fertilizer is a key input in the production of sugarcane crop among other elements. Fertilizers and herbicides contribute approximately 8.58% of the total sugarcane growing costs.
- 2.5 However, Zimbabwe imports 88% of top dressing and 75% of phosphate, any price movements in world markets affects Zimbabwe given that the country is a price-taker. Soaring world fertilizer prices are driven by a confluence of factors, including, Covid 19 pandemic, surging input costs, supply disruptions caused by sanctions (Belarus and Russia), and export restrictions (China). Urea (top dressing) prices increased from US\$846.40/mt to US\$925.00/mt translating to a 9.29% increase surpassing 2008 peaks of US\$815/mt. On the other hand, phosphates and potash prices are inching closer to 2008 levels, of an all-time high of US\$1,200/mt.
- 2.6 However, concerns around fertilizer affordability and availability have been amplified by the war in Ukraine. Currently, MOP and Diammonium phosphate (DAP) increased by 154.52% and 36.41% to US\$562.50 and US\$954.00, respectively on the world market, as illustrated in Table 3 below.

Table 3: Global Fertiliser price movements

Cost Driver		Jan 2022 (US\$)	May 2022 (US\$)	% change
Fertilizers/mt	MOP	221	562.50	154.52
	DAP	699.38	954.00	36.41
	Urea	846.40	925.00	9.29

source: Bloomberg; World Bank

2.7 Disruptions and shocks in the supply of fertilizer have a huge impact on sugar prices. Russia and Ukraine produce a combined 10,4million metric tonnes of fertilizer per annum and the war has affected local supply prices as illustrated in the Table 4 below.

**Table 4: Local Fertiliser supply prices**

Cost Driver		Jan 2022 (US\$)	May 2022 (US\$)	% change
Fertilizers/mt	MOP	1,190	1,500	26.05
	SSP	235	365	55.32
	A. N	1,250	1,400	12
	Urea	1,010	1,100	8.91

Source: Zimbabwe Fertilizer Manufacturers Association

2.8 Price increases have a detrimental effect on the downward stream industries that utilize sugar as a raw material in production processes. The compounding effect of these increases is being passed on to the consumer, thereby making products unaffordable to consumers.

#### *Fuel and Logistics*

2.9 Fuel is a major component in logistics contributing approximately 30% to 33% to the total cost. Transport is key in the movement of inputs, sugarcane, sugar and it's related products. Any price shock in fuel has a knock-on effect on the final price of sugar. Farmers and processors utilize both road and rail.

2.10 In Zimbabwe, fuel increased as global prices surged, responding to tensions between Russia – Ukraine which increased the cost per barrel from US\$83.92 in January to US\$106.52 as at 30 April 2022, translating to a 26.93% increase. However, on the local market, diesel increased by 21.28% from US\$1.41 in January to US\$1.71 in May 2022. To mitigate against exponential rise of fuel on the local market, Government reduced taxes on fuel by US\$8c. Table 5 below shows international and local fuel prices from January to May 2022.

**Table 5: Local and International fuel prices**

Cost Driver		Jan 2022 (US\$)	May 2022 (US\$)	% change
International Fuel (cost/barrel)		83.92	106.52	26.93
Local Fuel Cost/l	Diesel	1.41	1.71	21.28
	Petrol	1.41	1.64	16.31

Source: ZERA; World Bank

### *Logistics*

- 2.11 Locomotives are heavy consumers of diesel consuming approximately 5l/km. Efficiency in fuel consumption is being negatively affected by poor maintenance by the National Railways of Zimbabwe resulting in high consumption rate. Rail charges increased from Z\$1,527.38 in January to Z\$4,220.96 as at 18 May 2022 translating to a 176.35% increase.
- 2.12 Furthermore, transportation costs for road, field to zone and crane loading (road and rail) surged, and the increases are factored in the final pricing of the product as the industry tries to recuperate operating costs. This has a consequential effect of making sugar and its related products unaffordable. Farmers started to feel the impact on the onset of sugarcane harvesting which only began in April 2022. Table 5 shows transportation costs per bundle of sugar cane.

**Table 5: Transportation costs of Sugar per bundle**

Activity per bundle		May 2022 (Cost/bundle)
Rail		Z\$4,220.96
Road		US\$140 plus 60l diesel
Field to Zone		Tractor – Z\$10,626.49
Crane Loading	Road	US\$7/bundle plus 1l diesel
	Rail	

Source: Mkwasi Management Committee

*Coal*

- 2.13 Coal costs contribute an average of 5% to the total cost of refined sugar. Suppliers of coal base their pricing in US dollars indexed to parallel market rates. Miners are using antiquated machinery characterized by frequent breakdowns. Major spares for such machinery are imported and require foreign currency which is not easily available. The importation of spares and consumables has been affected by increase of duty in local currency, this was necessitated by Government’s move to use the Interbank rate rather than the auction rate.
- 2.14 In addition, coal is bulky, and as such it will be ideal for it to be transported by rail, however, inefficiencies by NRZ and marginal differences in transport costs have resulted in coal users having to resort to the use of road. Freight charges increased by 20% and 13%, thereby impacting on the cost of transportation as shown below:



<b>Mode of Transport</b>	<b>Jan 2022</b>	<b>May 2022</b>
Road	65	78
Rail	55	66

source: NRZ; Haulage Transporters

2.15 Combination of fuel costs and inefficiencies are factored in the cost of coal by merchants which in-turn is passed on to consumers through refiners. In the end, it makes sugar uncompetitive in the domestic, regional and international markets.

*Spares (mill & garage) and Consumables (tyres, PPE and chemicals)*

2.16 Conversion of sugarcane to sugar involves milling and currently there are only 2 mills which are old and require spares and consumables due to high frequency of machine breakdowns. Most of the spares are imported.

2.17 Packaging materials for 2kg and 50kg packs are locally available while 1 tonne bags are imported from South Africa. However, the industry highlighted that imported packaging is 57% cheaper than the locally manufactured bags. Additionally, the quality of 2kg packs is substandard and there is high rejection rate by packing machines thereby increasing packaging costs.

2.18 The pronouncement of “Measures to restore confidence, preserve value and restore macroeconomic stability” affected imported spares and chemicals as import duty increased by 60% because of a shift from Auction Rate to Interbank Rate or Willing Buyer Willing Seller rate (WBWS) from (Z\$165.99:US\$1) to (Z\$278.76:US\$1). The cost on duty was further passed on to consumers as the sector uses cost recovery model, this impacts on the competitiveness of sugar thereby having a knock-on effect on other sectors which rely on sugar as a raw material.

### **3.0 RECOMMENDATIONS**

- 3.1 It has been observed that the sector heavily relies on production of sugar and ethanol only, yet it can diversify by utilizing by-products such as bagasse to produce building materials and PPE, among many uses.
- 3.2 Furthermore, there is need for increased production of ethanol given that it has the following benefits:
- Clean fuel and reduces carbon footprint;
  - Fertigation – 1 litre of ethanol produces 11 litres of stillage that has nutrients required by plants, thus reduces fertilizer application;
  - Reduces irrigation costs; and
  - Reduces pressure on foreign currency by cutting down on the import bill of fossil fuel, fertilizers and chemicals.
- 3.3 This can be achieved by increasing capacity of Triangle and Hippo Valley mills through technology and innovation. Industry can take advantage of Harare Institute of Technology (HIT) and National University of Science and Technology (NUST), to produce domesticated machinery to be used in the farming, harvesting and processing of sugar and its by-products. The sector can also enhance the already existing MOU between Zimbabwe Sugar Association Experiment Station (ZSAES) and Great Zimbabwe University to cover production of farming implements specifically for sugarcane farmers.
- 3.4 In addition, sugarcane farmers in Zimbabwe are too fragmented resulting in failure to enjoy economies of scale, therefore, to enhance the industry's competitiveness, there is need to create one Apex Farmer's Association which will be responsible for:
- Negotiating sugarcane producer prices;
  - Negotiating with suppliers of inputs, utilities and implements for discounts;
  - Engaging in other projects such as stockfeed production and cattle fattening;
  - Engaging financial institutions for lines of credit at favourable rates;

- Spreading its structures by opening regional and international offices for marketing & information gathering related to sugar and ethanol production; and
- Ensure that their members mechanize their farming activities to enhance competitiveness.

3.5 Macroeconomic stability is a prerequisite for any industry to grow hence Government is urged to address challenges related to:

- Absence of long-term financing at affordable rates;
- Policy inconsistency; and
- Exchange rate distortions which industry indicated as the main key driver in changes in prices.

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