Rabobank

Tanzania Sugar

Foreign Investors Need Enabling Environment

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Tanzania is a sugar deficit country, with four large estates producing about 300,000 tonnes of raw sugar annually, leaving a shortfall of 220,000 tonnes to be met by imports. With cane yields among the lowest in East Africa due to a shorter growing period and strong reliance on seasonal rainfall, there is ample scope for improvement with wide-scale irrigation and drainage, and improved cane varieties and field practices. All four mills have sufficient capacity for foreseeable cane production on their respective estates, but operations are hampered by harvest logistics, especially for outgrowers. Lower priced surplus sugar imports are distorting the market and impacting mill cash flows, which is reflected in prices paid to outgrowers. Even with current initiatives to develop new estates, demand is outstripping domestic production. The government will need to establish an enabling environment with clear regulations on investment and review policies on sugar imports and exports.

Introduction

Since the privatisation of Tanzania's sugar estates in the 1990s, sugar production has steadily increased. The country is estimated to consume about 520,000 tonnes of sugar, including 120,000 tonnes refined sugar used for industrial purposes. However, with annual production of 300,000 tonnes, there is a deficit of 220,000 tonnes. The deficit is made up through sugar imports with an annual cost of approximately USD 132 million in foreign exchange.

Currently, there are four sugar estates in Tanzania (Kilombero, TPC, Mtibwa and Kagera) with a total of 31,000 hectares under plantation management (*see Figures 1 and 2*). Combined production reaches about 2.1 million tonnes, with an average yield of approximately 68 tonnes/hectare. Three of the four plantations have cane outgrowers with a total of 27,000 hectares producing about 710,000 tonnes of cane, at an average yield of about 27 tonnes/hectare. There is potential to expand sugarcane production into other geographical areas, but an enabling environment for new investors needs to be developed.

Tanzanian sugarcane yields lower than elsewhere in East Africa

While there is considerable potential for expansion of sugar production in Tanzania, currently sugarcane yields are lower than elsewhere in East Africa. The low yields result from a combination of factors, the most important of which is lack of irrigation. Most plantation cane is still not under irrigation and outgrower cane is almost entirely rain-fed. Average yields of rain-fed sugarcane range from 40 tonnes to 80 tonnes/hectare compared to yields of 80 tonnes/hectare to 110 tonnes/hectare for irrigated cane. Furthermore, the sucrose content of Tanzanian sugar is generally lower than in sugar from countries such as Zambia and Mozambique due to fewer hours of sunshine.

Figure 1: Plantation parameters

	Kilombero	TPC	Mtibwa	Kagera
Majority owners	Illovo	Terreos/Clei group	Superdoll	Superdoll
Total cane (ha)	21,800	7,739	8,050	12,000
Irrigated cane (ha)	6,174	7,739	7,500	4,000
Outgrowers cane (ha)	12,000	No outgrowers	Not known (high potential)	4,082 (e)
Plantation cane (ha)	9,800	7,739	8.050	12,000
Total cane crushed (MT)	1,200,000	790,000	436,000	500,000
Raw sugar produced (MT)	120,000	80,000	50,000	50,000
Mill capacity (TCH)	245	150	150	120
Main future plans	Expansion increase	Increase production/ha	Consolidation	Expansion
Main challenges	Increase output	Water availability	Power supply	0 growers
Region	Morogoro	Kilimanjaro	Morogoro	Kagera
Distance to port (km)	350	450	250	1,500

MT=tonnes
TCH=tonnes cane/hour

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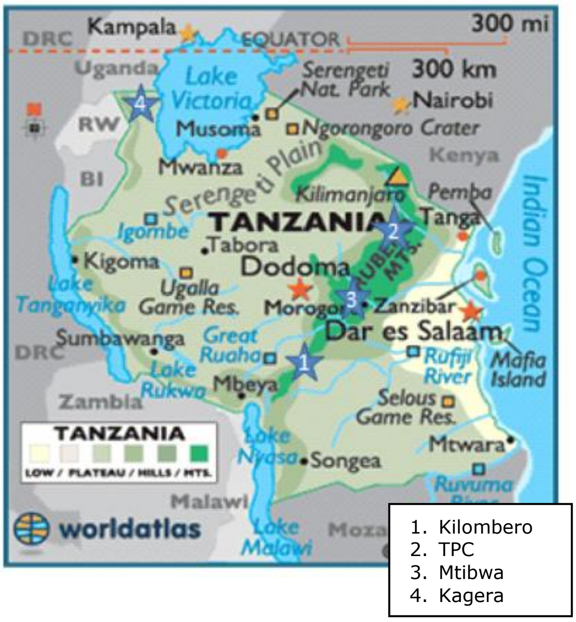
Figure 2: Tanzania sugar estates



In areas of high altitude such as Kagera (at 1,000 metres above sea level), the cane requires a growing period up to 18 months compared to 12 months at Kilombero and Mtibwa (100 metres above sea level). Efforts are being made to improve yields in these areas with new cane varieties requiring shorter growing seasons. With manual cutting as practised in Tanzania, four to seven ratoon crops can be achieved before the cane has to be replanted. Disease-free planting cane, grown in the estate nurseries, considerably reduces the cost of replanting.

Sugarcane is vulnerable to flooding and drought, particularly in Tanzania, where production is frequently disrupted by unpredictable weather conditions because of irrigation and drainage issues. For instance, 2011 was extremely wet with insufficient sunshine for sugarcane production. In some cases, the cane became waterlogged, which was reflected in the cane yield per hectare and sucrose content. In 2011, some estates were so badly affected by wet conditions that they produced almost 40 percent less sugar than in seasons with normal rainfall. With ample scope for improvement, all sugar estates have embarked on the gradual expansion of irrigation and drainage and are introducing improved cane varieties and improving field practices. Once these improvements are fully implemented, production could increase by more than 50 percent in some areas. The potential is estimated at an additional 2 million tonnes of sugarcane and about 200,000 tonnes of raw sugar from the current four large estates and cane outgrowers on these estates.

More focus needed on outgrowers

The current production of outgrowers (<40 tonnes/hectare) could be doubled if they were organised into block farming, as is the case in Zambia, since larger units justify investments into irrigation. While outgrowers have the opportunity to obtain commercial loans for working capital, more needs to be done to provide extension services to this group of growers.

The country´s mills are undergoing rapid cane area expansion and development, so have recently been giving priority to organising the mill-managed cane production. However, if they want to reach full capacity utilisation, more effort needs to be made to include outgrower cane producers. For this to happen, payments to outgrowers need to be improved and better organised, which in turn should encourage full participation of outgrowers.

Output variable despite large investments to upgrade sugar mills

The annual production of raw sugar in Tanzania varies substantially, largely because of weather conditions, which affect cane yields as well as harvesting and transport logistics. Sugarcane needs to be processed almost immediately after harvesting, but logistics are not always properly synchronised, especially for the smaller volumes outgrowers have to deliver to the mills. Sometimes, outgrower cane is not collected or is collected too late for processing because harvesting has to stop at the start of the rainy season, when roads become impassable and fields too sodden for cane transport. As a result, the annual nine-month cane-crushing campaign cannot always be achieved.

Most of Tanzania's sugar mills built in the 1960s have recently been updated to increase milling capacity and improve technical performance. Thus, all four mills have sufficient capacity to process current and foreseeable production on their respective estates. The oldest mill, TPC in Moshi, was built in the 1930s and was completely overhauled by the new owners in 2004. The Kilombero (Illovo) estates have two mills with a combined capacity of 245 tonnes/hour. Mtibwa's (Superdoll) sugar mill underperformed in 2011, largely due to the bad weather conditions that hampered cane growth and harvest. The Kagera sugar mill (Superdoll) had to be completely rebuilt in the 1970s after disruption during the war with Uganda under the Amin regime. The factory is currently being upgraded to increase production capacity to 150 tonnes/hour.

All four mills produce sufficient bagasse (fibrous cane residue) for fuel self-sufficiency for their steam boilers to generate power for cane processing and field irrigation, and some even export power to the national grid.

Fluctuations in raw sugar price follow world market

There are no official prices—producers are free to establish their own prices—but the upper limit of prices is generally import parity (i.e. the landed cost of world market sugar plus import tariff plus internal transport costs). The estates set their own prices for raw sugar, which are generally close to import parity, so market prices generally reflect the cost of importing from the world market.

Stakeholders, including sugar mills, sugar traders and importers, the Sugar Board of Tanzania (SBT), and the Sugar Producers Association (Technical Advisory Committee), meet when opportune to share data on sugar production and consumption. Based on the outcome of these meetings and on political considerations, the SBT (which is part of the Ministry of Agriculture) determines import quotas. Decision-making is also influenced by the fact that Tanzania is member of the East African Union, in which levy policies have to be synchronised. However, the government has not always followed the TAC recommendations of late.

Transport costs are another factor influencing sugar prices. Rabobank estimates that transport of goods in Tanzania costs about USD 0.15 per tonne/kilometre. A sugar estate such as Kagera is therefore focusing on supplying the region around the mill. Transporting sugar from Dar es Salaam to Rwanda costs an additional USD 180/tonne, which is a further incentive for the industry to supply nearby markets in Tanzania and for branding products to create added value. Furthermore, export permits are difficult to obtain.

While sugar companies do not provide data on the cost price of sugar, USc 16/lb or <USD 400/tonne is considered 'problematic' by some estates' executives in Tanzania, suggesting that this is close to the cost price. Other sources quote USc 24 /lb as the cost price.

Until recently import tariffs and import licences were based on analysis and proposals from the SBT which were then approved by the Tanzanian government. Recently, the government has gone its own way by fixing import tariffs at 10 percent, without considering the low world market prices. This has led to higher import volumes at lower world prices and lower tariffs, impacting local prices and therefore revenues of local producers.

The sugar market in Tanzania is subject to price volatility, which can prove favourable to either consumers or producers. When world market prices are low, cheap imports lead to market oversupply, thereby keeping prices low for consumers. High world market prices have curtailed imports, which is further compounded by the fact that import duties for sugar are currently fixed at 10 percent. The sugar industry has urged the government to urgently review these policies. Cross-over from sugar destined for industrial use to the consumption market is also aggravating the challenges faced by the industry.

Demand outstrips supply and imports harm sugar mills' cash flow

The domestic sugar market is growing as the population is increasing by about 3 percent annually and annual economic growth is around 6 percent. Increasing affluence is also leading to an increase in per capita sugar consumption, which is currently <10 kilogrammes, compared to approximately 32 kilogrammes in South Africa. Domestic sugar consumption is likely to increase at a rate of 20,000 tonnes annually and progressively. At the current rate of sugar production increases, it is doubtful whether domestic production can keep up with demand, especially as a greenfield operation can take five to six years to reach production capacity even under the most optimistic scenarios.

Tanzania is therefore likely to be dependent on sugar imports for the foreseeable future. Like the other four countries in the East African Community (Kenya, Rwanda, Burundi and Uganda), Tanzania is facing a sugar deficit. Despite the deficits, this open common market leads to illegal sugar exports from Tanzania to Kenya, the Democratic Republic of Congo (DRC), Burundi, Rwanda and Uganda when Tanzania tries to keep the price down by imposing levies, imports and/or subsidies. It is estimated that about 60,000 tonnes are smuggled out of the country annually. In addition, the domestic market in Tanzania is regularly oversupplied with imported sugar at the beginning of the campaign in June, when all mills start to supply raw sugar and sugar is still being imported.

An important and delicate role is played by the large importers, who are often also important traders of the locally produced commodity. They endeavour to maintain equilibrium between import prices and cost price at the mills to ensure the price does not drop to below world market price, corrected for port handling and transport.

Currently, surplus sugar imports at lower prices are impacting on their cash flow at certain times of the year. While the annual import requirement is estimated at 80,000 tonnes of raw sugar and an additional 80,000 tonnes of industrial sugar, licences have been granted for the import of 200,000 tonnes of raw sugar. This will result in a raw sugar surplus of some 120,000 tonnes imported annually. Furthermore, the timing of imports is not synchronised with the local sugar production cycle. Sugar imports are required during the rainy season when sugar mills are not producing, but instead imports are permitted all year round. The problems of sugar mills are further compounded because export licences for the EU are not readily granted. When the local market is flooded with sugar imports, the logical thing to do is to export the surplus (under the EU quota) to alleviate the cash flow problem. That is difficult as export licenses are not readily given out. As a result, the sugar mills are faced with serious cash-flow problems at various times of the year, which is reflected in the lower price paid to cane outgrowers.

New estates in the long pipeline, lots of promotion, little delivery

Expansion of the sugar industry requires substantial foreign investment as well as government approval for the allocation of more agricultural land for this purpose. However, the government has been reluctant to introduce measures that would facilitate large-scale foreign investment, even though investment in sugar estates would contribute to rural development, particularly if it includes outgrower participation. Currently, a ceiling of 10,000 hectares is in place for sugarcane production per investor, which is not sufficient for viable production, even if accompanied by a further 10,000 hectares for outgrowers. Further obstacles identified by foreign investors include lack of land title deeds, the large number of parties involved in the investment process, lack of urgency and the absence of a transparent tax structure. In addition, the government has recently increased land rental prices fivefold. Local taxes and service levies by local and district authorities have also risen. This comes on top of the rising input prices to the industry.

To attract major investment, the government will need to establish an enabling environment and clear regulations for investment with regard to social and environmental responsibilities. Reports of facilitation fees for large investment have tended to scare off publicly listed companies from the west because of their adherence to corporate social responsibility rules.

Nevertheless, several new sugar estates are in the pipeline. A sugar estate of 7,800 hectares, with a further 3,000 hectares under outgrower production, is being developed near the town of Bagamoyo, about 80 kilometres north of Dar es Salaam. The estate is expected to produce 125,000 tonnes of raw sugar at full production in 2014. A system is being developed to combine outgrowers into larger units (block farming) to create economies of scale for smallholders. However, the implementation of the project is taking considerably longer than planned, so delays are expected.

According to the Tanzanian press, Indian investors together with local Tanzanian entrepreneurs are establishing a sizeable sugar estate with outgrowers in the Rufiji area, about 150 kilometres south of Dar es Salaam. About 10,000 hectares of sugarcane is to be cultivated to produce 125,000 tonnes of raw sugar annually. Apparently, the area has potential for expansion because the ultimate goal is said to be 250,000 tonnes of sugar annually, which would make it the largest estate in the country. The estate will have outgrowers operating blocks of 100 hectares, thereby creating economies of scale for smallholder farmers. There are claims that it will provide employment for about 10,000 people by 2014 and indirectly many more. Tanzanians will be trained to operate the estate using state-of-the-art technology.

Other expected developments include the revival of the Mohenda estate on Zanzibar Island, with potentially about 1,500 hectares under cane production and a mill capacity of 25 tonnes of cane/hour. Owned by a local entrepreneur, the estate currently has only 400 hectares under rain-fed cane (rainfall is much higher in Zanzibar than on the mainland) and the potential to produce 8,000 tonnes of raw sugar annually.

Several other new developments have been proposed and initiated. These include large-scale sugarcane greenfield operations near Lake Tanganyika in the Rukwa/Kigoma regions by a Dubai-based group. According to the Tanzania Investment Centre (TIC), the government has earmarked two new large-scale greenfield sugar operations in the Morogoro region. One is near Ruipa, with a nucleus estate of 10,000 hectares, and the other is 62,000 hectares near Mkulazi for sugarcane and various other agriculture sectors. Given that these projects are only proposals at present, it would probably take an absolute minimum of six to seven years for them to enter into production.

Conclusion

At the current rate of sugarcane production and expansion, Tanzania will remain a sugar deficit country. Nevertheless, there are indications that improvements are being made albeit slowly.

With the introduction of widespread irrigation, improved varieties and cultivation practices, the existing four sugar estates have the potential to raise their combined production by as much as 200,000 tonnes of sugar annually. However, to be become a sugar exporter, improvements need to be accelerated.

Policies on sugar imports require urgent review, because excessive imports are creating cash-flow challenges for the sugar mills, while export permits are not being readily granted.

There is potential for foreign investment, but much more needs to be done to stimulate foreign investment in the sugar industry, as cane growing offers the additional spin-off of smallholder production. To attract major investment, the government will need to establish an enabling environment and clear regulations for investment with regard to social and environmental responsibilities.