LMC

Global, Regional and Domestic Sugar Markets

Implications for the Ethiopian Industry

Introduction

Based upon the findings of our recent study assessing the Ethiopian sugar sector, contracted to Booker Tate and with market analysis subcontracted to LMC International, this presentation will address the following areas:

- Supply and demand in Ethiopia
- Supply and demand in export markets
- Sugar prices - domestic and international
- Implications for privatization and policy

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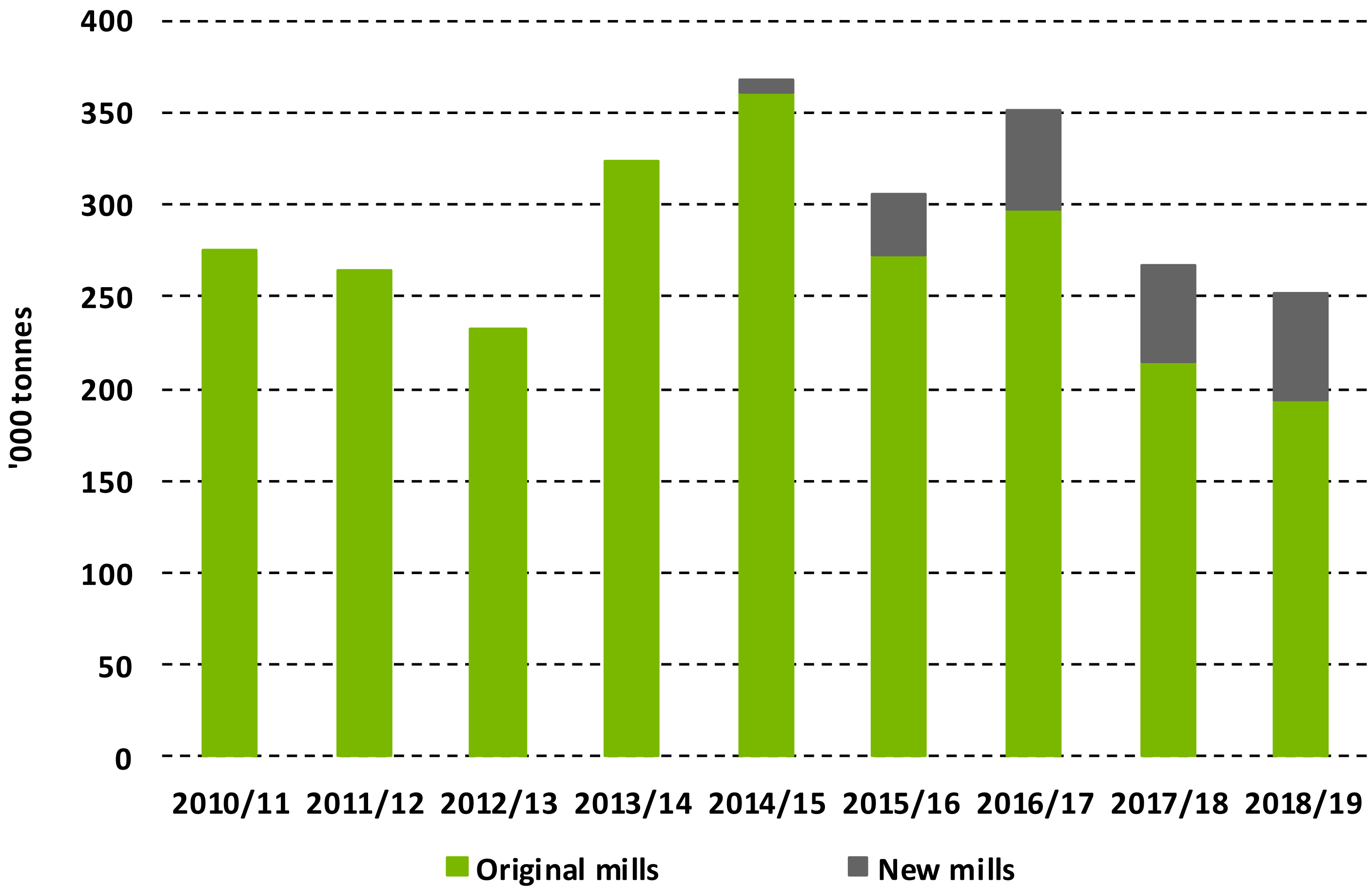
Supply and demand in Ethiopia

Sugar supply - Production

Ethiopian sugar production



Prior to the recent expansion, sugar was produced by mills located at three sites: Wonji-Shoa, Metahara and Finchaa.

Since then, five new mills have begun production (Kesem, Omo Kuraz 2, Omo Kuraz 3, Arjo Didesa and Tendaho).

Source: ESC

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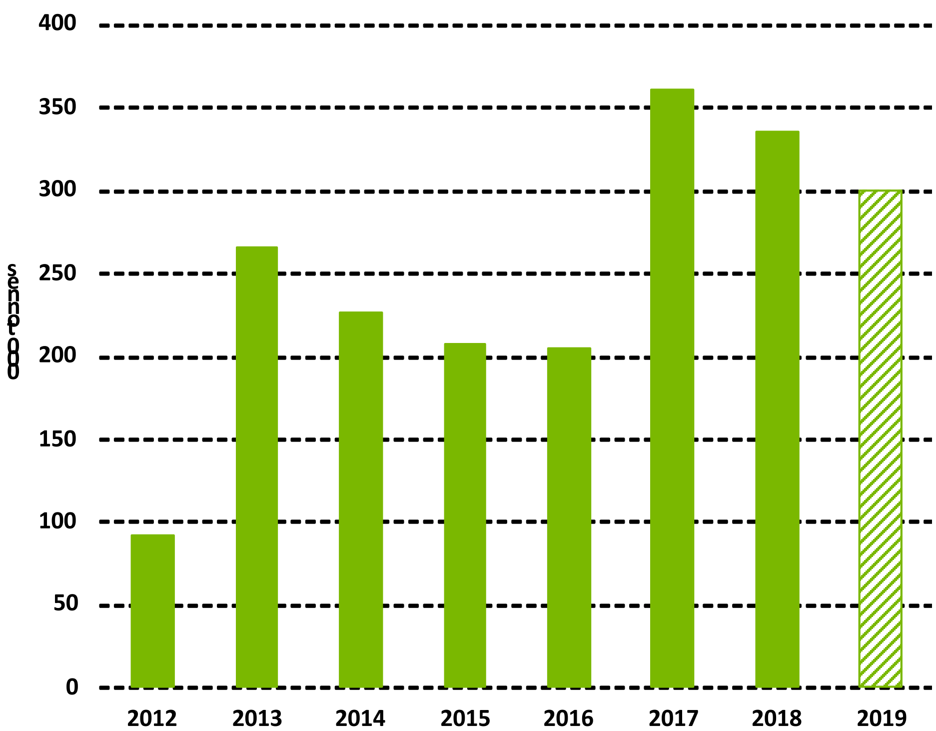
Sugar supply - Imports

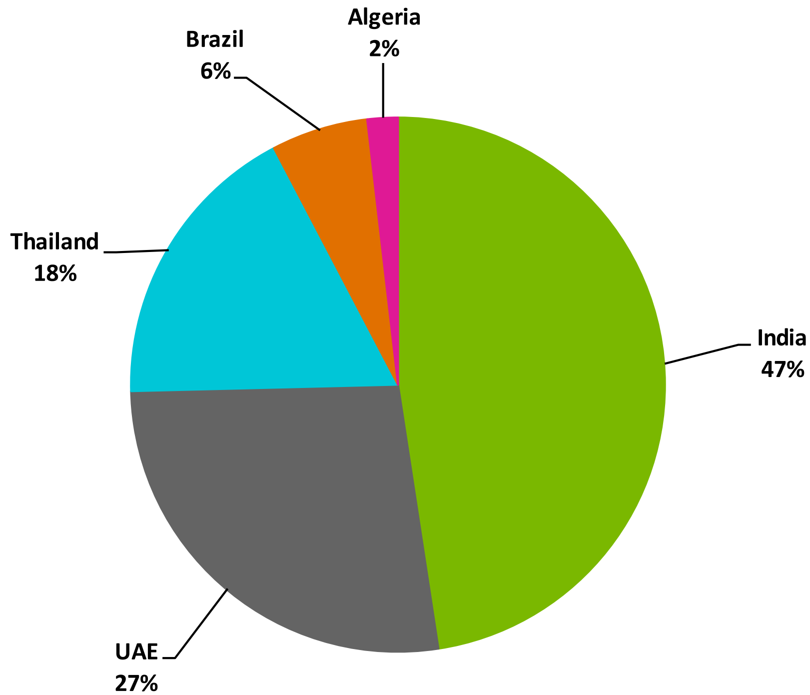
Imports are currently conducted via international tenders, issued by the ESC.

Official imports have totalled between 300-350,000 tonnes in recent years.

Ethiopian sugar imports



Origin of imports, 2012 – 2019



Source: ESC. **Note: 2019 has been estimated based on the volumes tendered to date.**

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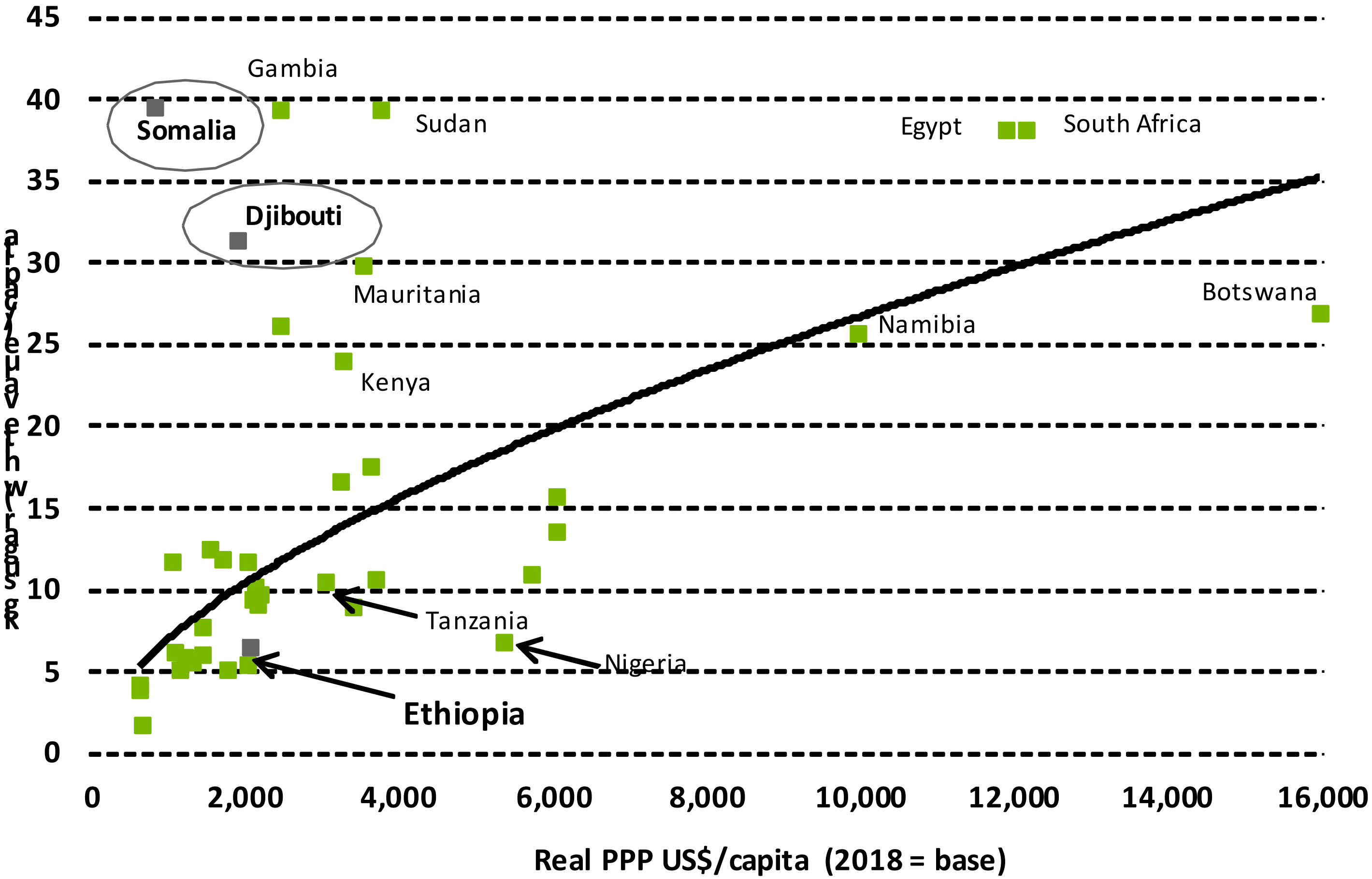
Sugar supply – Official

Sugar consumption per capita versus income



Total official supplies of sugar have totalled around 550-600,000 tonnes annually (around 5-6 kg per capita).

This is well below the official consumption reported by neighbouring coastal countries.

In reality, sugar is likely to flow inland – unofficially, raising actual consumption in Ethiopia.

Source: ESC and LMC calculations. GDP data from IMF.

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Sugar supply – Total

We estimate that around 150-225,000 tonnes of sugar flow into Ethiopia unofficially per year. This implies total consumption is around 700-775,000 tonnes annually, or around 7 kg per capita.

However, this is still below the level demand suggested by Ethiopia's income, which would be just over 10 kg per capita. This suggests there may be constrained demand.

Production, trade and implied consumption, 2018/19 ('000 tonnes and kg/capita)

	2018/19	2018/19 - per capita
Production	252	2.4
Imports	300	2.8
Official supplies	**552**	**5.2**
Unofficial imports	**150-225**	**1.4-2.1**
Official + unofficial consumption	**700-775**	**6.6-7.3**

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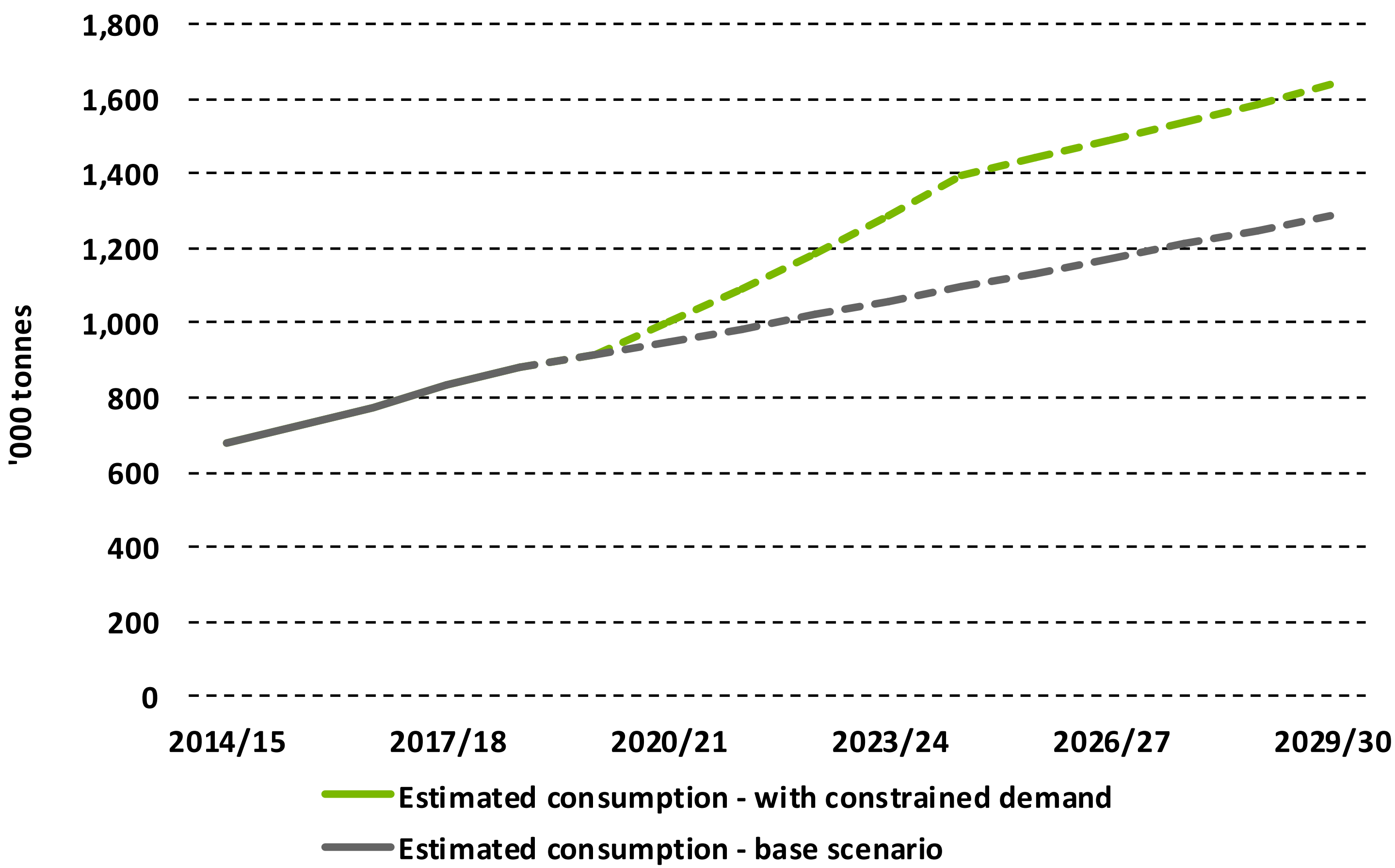
Sugar consumption - projections

Estimated Ethiopian sugar demand and growth



Ethiopia's future consumption growth is expected to be around 3-4% annually. This implies demand growing by 0.4 million tonnes by 2030.

With the population rising, an additional 240,000 tonnes of sugar will be needed by 2030 due to population growth alone.

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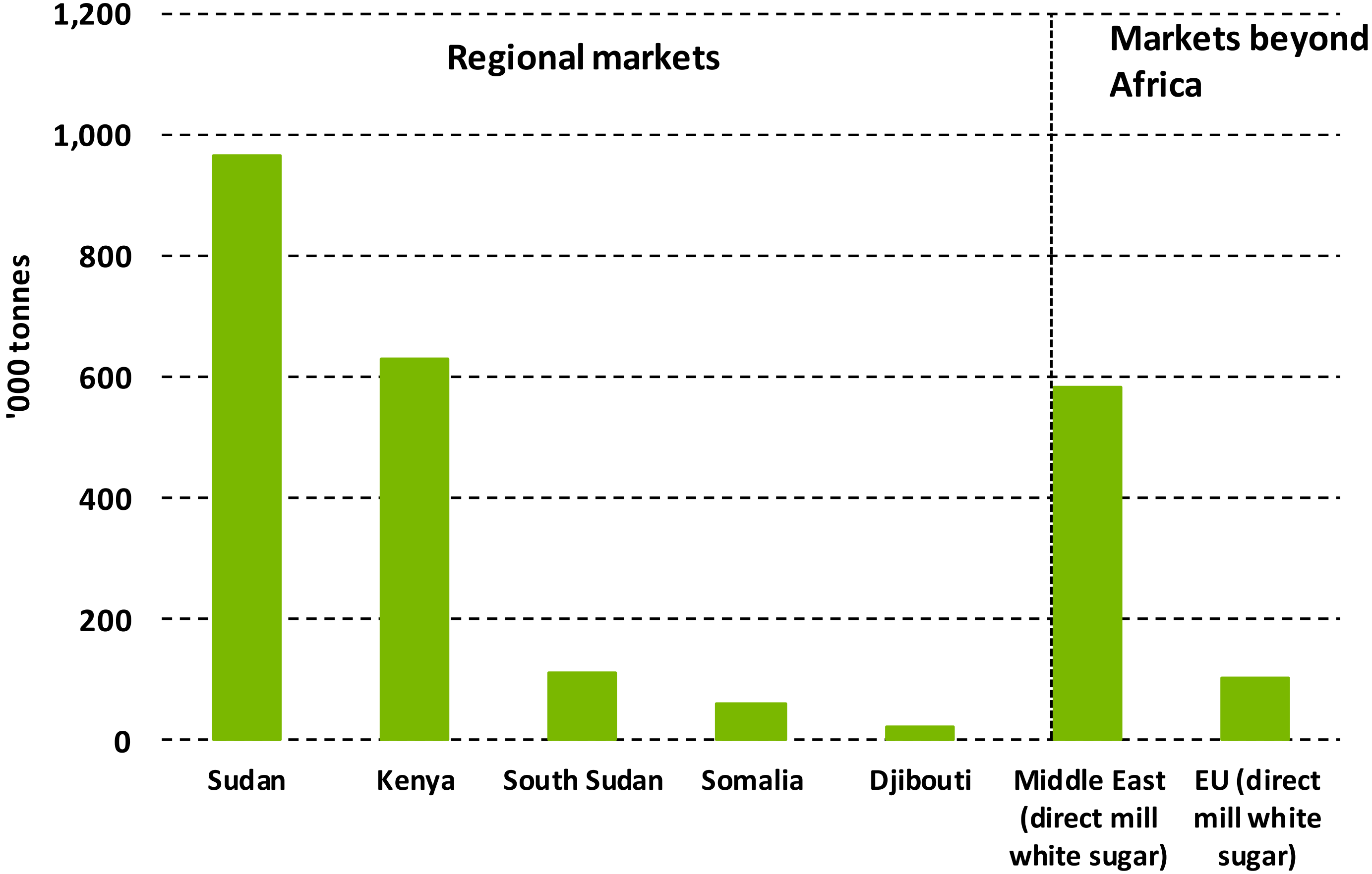
Supply and demand in export markets

Sugar consumption - projections

Sugar deficits, regional and international markets



Ethiopia is located within a deficit region of Africa, offering opportunities for mills.

Beyond Africa, there is also demand for sugar in the Middle East and the EU.

However, policy and quality limits access to some of these markets.

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Sugar prices – domestic and international

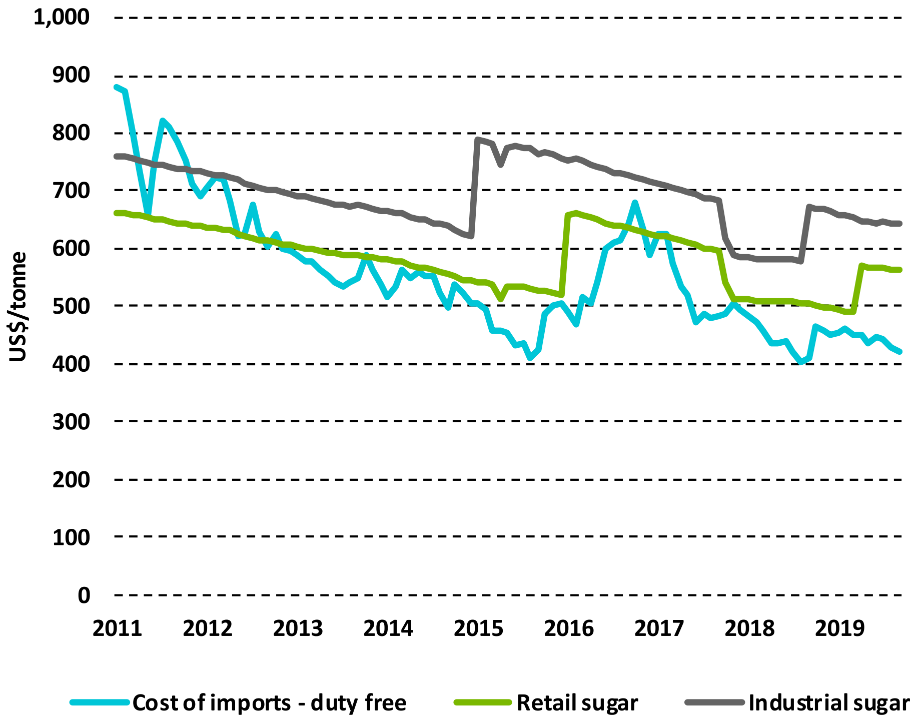
Sugar prices in Ethiopia

Sugar prices in Ethiopia are currently set at fixed levels.

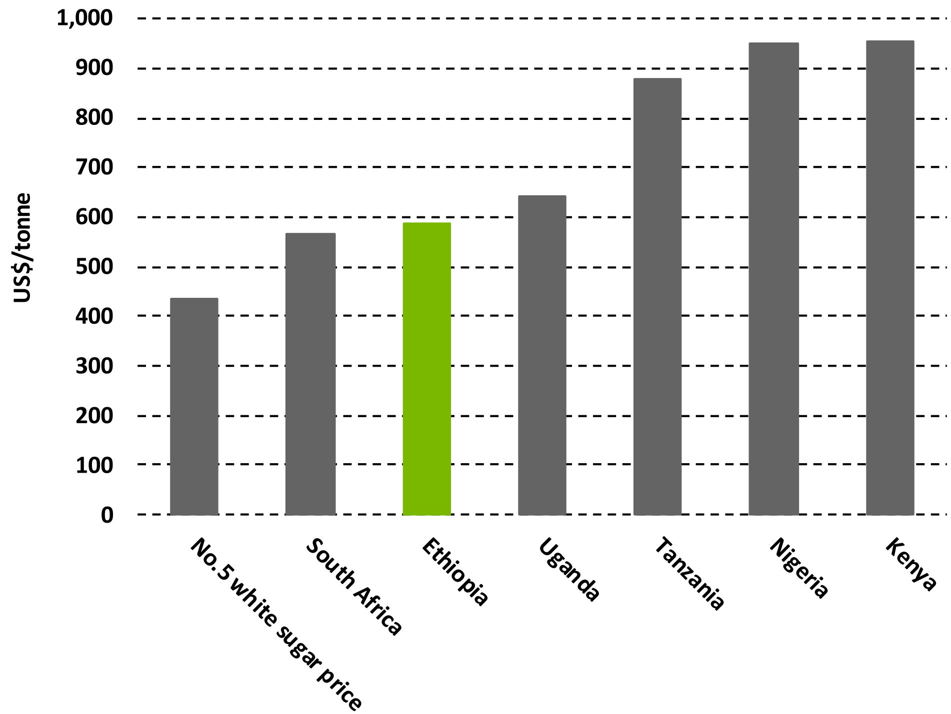
These have been close to the cost of importing sugar in recent years.

Domestic prices are towards the low end of the range seen across Africa.

Ethiopia sugar prices, US$ basis



Sugar prices, Ethiopia versus other African markets



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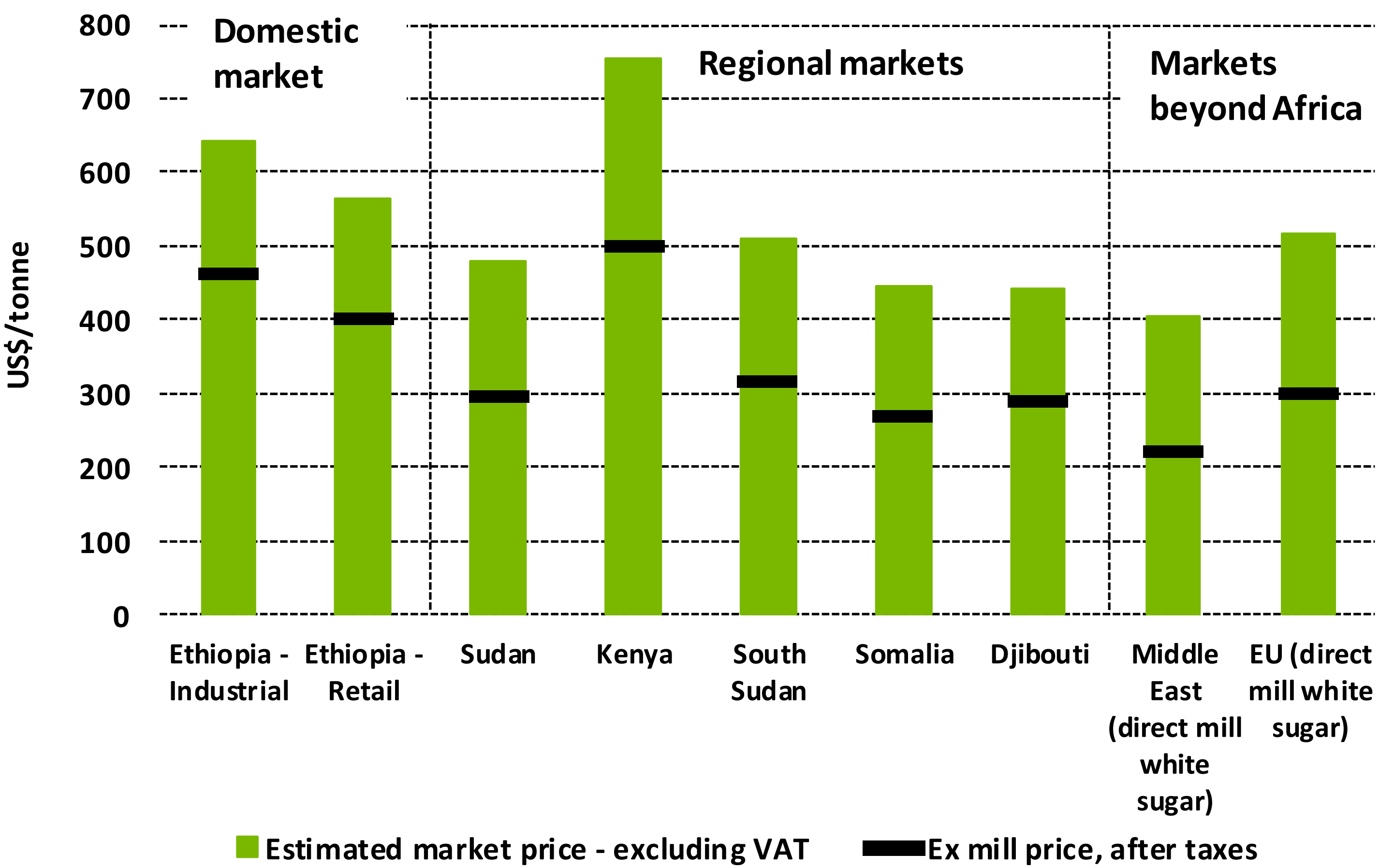
Sugar consumption - projections

Sugar prices – Domestic, regional and world export markets – No.11 = 15 cents/lb



To reach an ex-mill price, the excise duty of 33% must be subtracted, as well as transport costs.

This gives around US$400/tonne for domestic retail sales, and US$200-300/tonne for export markets, ex-mill.

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Implications for privatization and policy

Domestic protection – will it be needed?

While Ethiopian mills are expected to be competitive suppliers of the domestic market, even without duties, in the long term, there may be an argument for some protection, at least during a transitional period:

- Many mills will have higher costs in the shorter term while production expands.
- World prices are volatile, and may remain depressed for extended periods.
- Protection would increase the confidence of investors in the price they will receive for their sugar, raising the valuation of mills.

However, protection would also raise the prices consumers pay for sugar.

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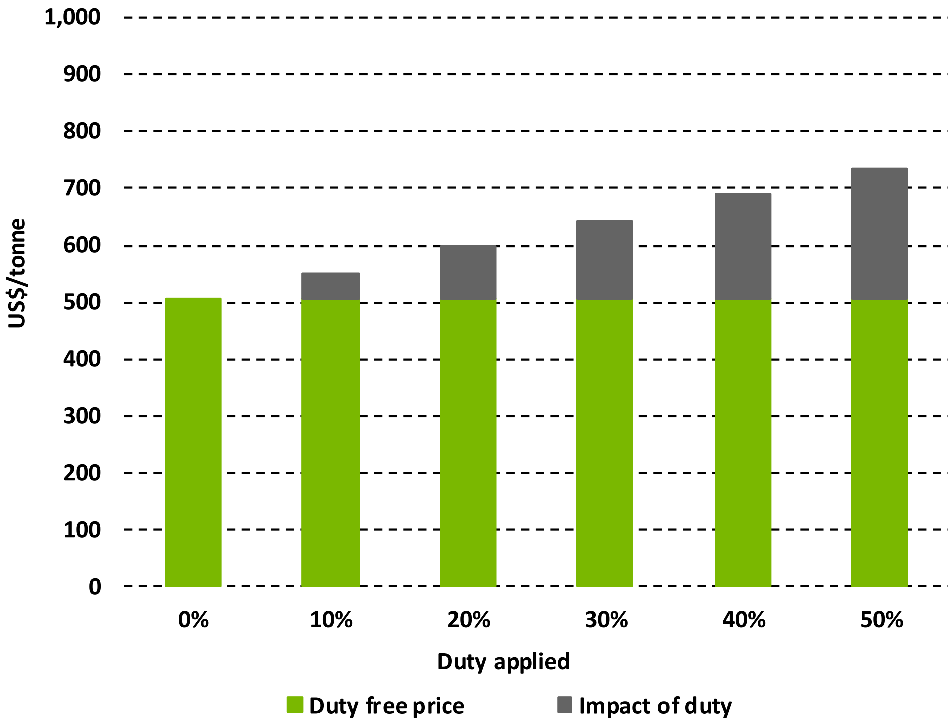
Domestic protection – Options

While price controls could remain in place, and be periodically raised in line with inflation, this requires the active involvement of the government to set prices and lacks the transparency needed by the private sector.

Ex-mill domestic sugar prices, 0-50% duty applied (No.11 = 15 cents)



One option for protection would be to liberalise imports to allow them to set prices, and impose ad-valorem duties if necessary. This is the most common way prices are set across Africa.

However ad valorem duties will inflate domestic prices, particularly when world market prices are high.

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Domestic protection – Options

In order to avoid this problem, an alternative is to use a variable tariff that alters depending on the level of world prices.

This allows the import duty to rise when world prices are low, providing protection to producers, and to fall when world prices are high, keeping sugar affordable.

Of course, a critical issue with such a system is the level at which the reference price is set, and how it will be adjusted.

Finally, other measures could be adopted, such as Vitamin A fortification.

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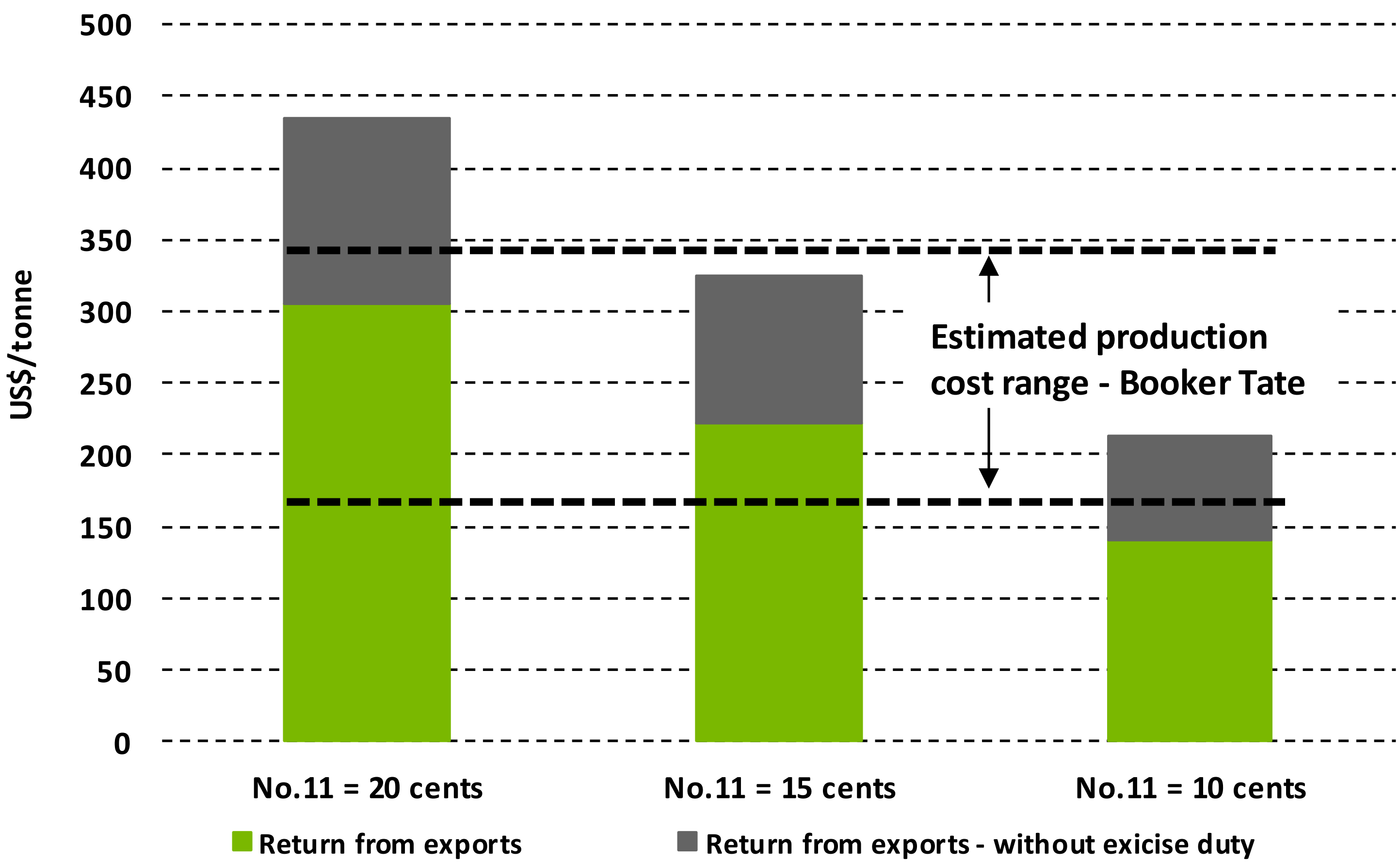
Export policy – will it be needed?

Returns from exporting to the Middle East – Ex mill



Once production exceeds domestic demand, there is a risk that prices are competed down to the return from exports.

This could result significantly lower prices for mills – potentially below their cost of production.

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Export policy – Options

One common solution is to form a single desk marketing board. This would sell sugar on behalf of all mills and then divide up the revenue.

Some other industries have used of sales quotas, with the quota set in line with domestic consumption and divided up among producers.

However, in both cases an understanding will need to be reached about the treatment of new mills and expansions.

Finally, when exporting the excise duty will significantly reduce mill revenue, as they will be competing in markets where prices are set by sugar which does not have to pay the duty.

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Thank you