

AGM OF THE MAURITIUS SUGAR SYNDICATE - MONDAY 26TH SEPTEMBER 2022

ADDRESS BY THE PRESIDENT

Mr Medha Gunpath, Senior Chief Executive of the Min of Agro Industry & Chairman of the MCIA, representing the Minister of Agro-Industry, Hon Maneesh Gobin;

H.E Mr Zhu Liying, Ambassador of the Republic of China to Mauritius

H.E Mr Shuichiro Kawaguchi, Ambassador of Japan to Mauritius

The CEO of the MCIA;

Chairpersons and Executives of public and private sector institutions;

Representatives of the Media;

Members of the Syndicate;

Distinguished guests.

A very good morning to you all. Thank you for your esteemed presence to this annual general meeting of the Mauritius Sugar Syndicate, which I should say is being held this year under normal conditions after 2 years of sanitary restrictions.

The Attorney General and Minister of Agro-Industry and Food Security, who was the Chief Guest at today's function, has unfortunately had some last-minute urgent constraint. The SCE will be reading his speech after the President's report.

Without much ado, ladies and gentlemen, I invite the President of the Mauritius Sugar Syndicate for his intervention.

Intervention of the President of MSS (Mr Jacques Marrier d'Unienville)

Good morning distinguished guests, ladies and gentlemen. I join Devesh in welcoming you to this annual function when, as President, I am given the opportunity to report on the Syndicate's performance over the outgoing campaign ie for Crop 2021. At the very outset, it is appropriate to point out that since its inception, the Mauritius Sugar Syndicate has been **a producer organization, regrouping ALL sugar producers** of the country: small & medium cane planters,

corporate growers and sugar millers alike. The producers are the ONES driving this organisation and, it is therefore true to say there is NO ONE who can bring better value for our sugars than these producers themselves. *Nous ne sommes mieux servis que par soi-meme.*

Let us also recollect that after abolition of EU guaranteed prices under the Sugar Protocol a dozen years ago, our sugars are sold in an open environment. Unfortunately, global sugar prices are often distorted, which explains the bad years faced by the sector over the recent past. Our trade agreements with our traditional partners, namely the EU under the Economic Partnership Agreement, but also within the regional market, and more recently with China and India, certainly provide us with a margin of preference, but we are not shielded from competition. The **industry must therefore be very agile to adapt to the ever-changing market environment**, in the quest for the highest selling prices for our sugars. This is best achieved through a **centralised marketing approach**, with the benefits of (i) economies of scale, (ii) a diversified product base and market presence, (iii) reinforced bargaining power vis-a-vis buyers, and even (iv) with the one-stop-shop concept facilitating sales transactions for all Mauritius sugars. **ALL members of the Syndicate gain from these benefits through the ex-Syndicate price.** After 103 years of existence, the Syndicate has stood the test of time, and as at date, we see no better model for the valorization of our range of products.

This is proven by the significant improvement in the price paid to producers for their sugar over the outgoing crop. As the Syndicate managed to take advantage of better market conditions, the ex-Syndicate price paid to its members has been finalized at **Rs 16,765** per ton sugar, i.e. Rs 2,700 higher than for the preceding crop, and a notable 93% increase above the Rs 8,686 paid for the 2018 crop, while the world market price and average EU price of white sugar have meanwhile increased by 50% and 37% respectively. Such a swing demonstrates firstly the high volatility of sugar prices, and secondly how the Syndicate has fared better than average in terms of sales performance. While the weakening of the Rupee, to the tune of 24% over the last three years, and the continued reduction in operating costs have helped, the Syndicate's pursuit of maximised value, especially through sales of higher value-added sugars in the most remunerative market destinations, is bearing fruit. Notwithstanding fierce competition from an increasing number of origins, this achievement has been made possible thanks to the quality of Mauritius sugars, which

comply with the most stringent buyers' requirements, and the marketing strength of the Syndicate as the sole distributor of locally produced sugars, with the dexterity to respond rapidly to the most promising opportunities within its wide market network.

Before I invite the CEO to elaborate on the evolution of sugar prices, allow me to place on record the bold and forward-looking measure taken by Government last year to remunerate bagasse at its true value. It contributed Rs 3,300 per ton sugar to producers' revenue while growers derived an additional Rs 1,823 per ton sugar for their molasses. Besides the Government Financial Support extended to planters producing up to 60 tons sugar, these 2 co-products of the cane therefore represented 25% of growers' total revenue for the 2021 crop, and will undeniably help to mitigate the impact of future sugar price fluctuations. We now eagerly await the **new biomass framework** which will provide better revenue predictability for producers and which, we believe, will be a cornerstone in reaching the objective set by Government to produce at least 60% of the country's electricity requirements from renewable sources by 2030. Let me take this opportunity to inform you that producers registered directly with the Syndicate can now verify their accounts, namely their proceeds from sugar, molasses and bagasse, on its website – www.mauritiussugar.mu – under 'Members' Corner'.

We should, moreover, be thankful to Government for having taken the decision last year to invest in a state-of-art bagged sugar warehouse in Riche Terre, which should increase the efficiency of our deliveries, thereby further reducing our operational costs. We understand a Project Manager has been recruited by the MCIA and we look forward to working closely with both for the fast completion of this project. I now call on Devesh to make an exposé on how we have managed to enhance our sales revenue.

Intervention of CEO of MSS (Mr Devesh Dukhira)

Distinguished guests, the 2021 crop sugar sales have firstly benefited from improved market conditions, as **global prices rose by some 28% over the crop year**, after an increase of 18% during the previous year. Secondly, with a strengthened market positioning for Mauritius sugars, pursuant to the launching of the new Mauritius sugar label in June 2021, and the subsequent marketing efforts of its buyers, the Syndicate managed to sell a **larger quantity of the high value-**

added special sugars, especially in the EU market. Thirdly, the proceeds of export sales have been supported by the continued weakening of the Mauritian Rupee, to the tune of 5% against the US Dollar over the crop year.

Let me remind you that global prices had in fact started increasing towards the end of 2019, after the drastic fall in 2017 when world sugar production had risen to a record 180 M tons. This price improvement is mostly on account of global sugar output subsiding to under 170 M tons over the following years, thereby drawing down stocks. However, this escalation was cut short by the widespread COVID-19-related lockdown of February 2020, which had a negative impact on oil prices and also on sugar consumption: consequently, sugar prices fell by some 40% within 2 months. The subsequent gradual lifting of confinement as from mid-2020 normalized consumption. While there had meanwhile been no major improvement in global production, sugar prices gradually recovered, which therefore influenced the selling price of Mauritius sugars for the 2021 crop.

EU sugar prices had unfortunately not yet been aligned with global prices when Mauritius sugars from the 2021 crop were being sold. This was due to firstly the growth foreseen in the EU crop, with production subsequently attaining 17.2 M tons, i.e 2.1 M tons or 15% increase over the previous year, and secondly suppressed consumption levels while the COVID-19 pandemic was still spreading. With the prices achievable for Mauritius white sugar in the EU having been less attractive, the **Syndicate consequently diverted to the regional market 45% of its white sugar sales**, compared with 9% in 2020/21.

Nonetheless, given the low opening stock in the EU for its 2021 crop year, pursuant to poor production in the previous season (i.e 15.1 M tons), and as consumption started recovering over 2021, sugar availability became tight, resulting in **high spot prices from the third quarter of 2021**. This price escalation persisted over the 2022 EU crop due to firstly a 4% decrease in acreage under beet, secondly higher beet prices alongside alternative crops, and thirdly the significant production cost increases, mostly due to the surge in energy prices triggered by the Russian invasion of Ukraine. Sugar availability has been exacerbated by the decline in yields, currently estimated at only 10.9 tons sugar per hectare, compared with 11.7 TSH in the previous year, due

to persisting dry spells over the EU Summer, hence with production falling by almost 1.5 M tons compared with the 2021 crop. The Syndicate has to-date already sold over 95% of its forecasted 2022 crop outturn, with an overall increase of almost 15% in sales revenue compared with the previous year, despite a 7% production fall foreseen. This should result in an ex-Syndicate price of at least Rs 21,000 for the 2022 crop.

We must, however, be realistic: these high market prices for conventional sugar in Europe are **due to particular circumstances**, namely the Ukrainian war and the high cost of energy, and will not prevail for ever. They are likely to subside once the war is over, though I should also underline the increase meanwhile in structural production costs in Europe, namely a rise of almost 50% in the price of beet to the EUR 40s per ton. **Even at the global level**, production is likely to fluctuate subject to weather conditions, but also oil prices, given the ability of Brazil to convert cane juice into ethanol. In addition, sugar tends to be politically sensitive in most producing countries, thereby attracting governmental support that regularly results in distorted price levels.

Consequently, the Syndicate **has no other choice than to pursue its strategy to strengthen sales of special sugars** for as long as they deliver even better prices. The new Mauritius Sugar Label launched in July 2021, set to *'take Mauritius sugars to greater heights,'* has been widely praised, and has already proved to be an efficient tool in consolidating the Syndicate's partnerships with its range of customers. Already, several buyers have followed suit, and their intensified promotion of Mauritius sugars in their respective markets has resulted in a 10% sales increase in the EU. This is in addition to sales development in China further to the new China-Mauritius FTA, which provides for a dedicated tariff-rate quota for Mauritius sugars. Preferential access into India under the Comprehensive Economic Cooperation and Partnership Agreement has also started to produce results, with a trial order of special sugars having been shipped over the past month. On the other hand, we are soon launching an online MSS Club which will regroup our key buyers committed in promoting the Mauritius sugars. This initiative will facilitate a cross-sharing of the best marketing practices to promote these sugars and consequently the Mauritius Sugar label, and should help in further increasing our market share.

Distinguished guests, the quest for value enhancement has been **extended to Mauritius white sugar**, especially in the EU, where it will be increasingly differentiated from locally produced beet sugar with the support of commercial partners and key customers. Thanks to the quality advantage achieved and its consistent marketing through a one-stop shop (i.e. MSS), Mauritius white sugar can attract additional premium above and beyond the standard commodity.

The Syndicate's value proposition in the marketplace is **strengthened by a growing sustainability certification within the industry**. During the year under review, Alteo has joined Omnicane to become Bonsucro-certified, with 37,500 tons of certified sugar now available for sale to industrial users who insist on such sustainability standards. Additionally, with the Fairtrade re-certification over the year of a small-scale Producer Organisation, bringing the number of certified Coops to 21, while the recently-registered MSS Multipurpose Cooperative Society continues to recruit smaller free cane growers who aim to become Fairtrade-certified, we expect Fairtrade sugar availability could attain some 20,000 tons this year.

The only outstanding reform remains the **adequate protection of the domestic market**. Despite the MFN import tariff of 100% on sugar, it is still being imported duty-free, namely under preferential trade agreements or by industrial users who are exempted from such payments. Bearing in mind the frequent distortion in global prices, on account of cross-subsidisation of exports or government support in certain countries, these sugars can land in Port Louis at prices which are below average production cost, thereby creating unfair competition for local producers. We hope a solution will be found for this long-outstanding issue, which results in a serious revenue shortfall for producers.

On this note, ladies and gentlemen, I now invite the President of the Syndicate for his concluding remarks.

Intervention of President of MSS (Mr Jacques Marrier d'Unienville)

The **future looks set for a viable cane sugar industry**. The recent increase in other revenue streams and the positioning of Mauritius sugars in niche market segments will undoubtedly augment producers' proceeds and mitigate future falls in global sugar prices. However, **our operational costs have meanwhile also increased**: fertilizers, transport, energy, labour, etc. The

MAJOR CONCERN remains the continued decrease in production due to acreage reduction, exacerbated by the fall in cane and sugar yields. While a return to profitable levels should encourage planters to improve their cultural practices, including more regular cane replantation, it is essential that the declining trend of land under cane be URGENTLY reversed. **It is high time to stop this haemorrhage as milling operations will otherwise suffer**, thereby reducing the industry's overall competitiveness. Let me also remind you that **milling operations have already been consolidated** over the years, with each factory now specialising in the production of specific direct consumption sugars. A further compression in the number of mills will undoubtedly restrain the industry's product offerings. In parallel, it is an appropriate time, in case it is not already being looked into, for the **MCIA to assess the impact of climate change on our cane and sugar yields**, and urgently develop new varieties, if required, which would be more adapted to the prevailing weather conditions.

The persisting reduction in sugar feedstock has meanwhile **necessitated sugar tolling operations** to fulfil refining capacity, as local refining costs would otherwise have been higher. Given the confusion such operations often create, I would like to bring some clarification here: while the raw sugar is imported by the Syndicate to maintain the centralisation of sugar sales, **all related costs are borne by the refinery**, so the Syndicate membership does not incur any risk or expense associated with such operations. On the contrary, **such operations have contributed almost Rs 800 to the ex-Syndicate price for the 2021 crop**. Consequently, excluding such purchases, the direct operating costs of the Syndicate stood at only a third of its sales revenue for the 2021 crop, a rise from 28% in the previous year, explained by the surge in sea freight charges over the year. As for the **Syndicate's own administrative expenses, they accounted for only 1% of sales revenue**, which is probably one of the lowest rates of remuneration around for a sales organisation which has to remain agile to adapt to a continuously changing market environment.

Distinguished guests, I wish to take this opportunity to recall the **contribution** of the cane industry to the Mauritian economy. It is **much higher than what is often perceived**. Besides the support services being contracted out, cane should presently account for over 2% of the national Gross Domestic Product, while direct and indirect employment remains significant. The socio-economic importance of the sector is supplemented by its role in enhancing the green landscape

of the island and reducing soil erosion, which make Mauritius an attractive destination for tourists, and also by its contribution to improving the island's 'energy security' by replacing fossil fuels, thereby lessening overall carbon emissions.

To conclude, I wish, on behalf of the Committee, to thank all stakeholders for their contribution towards the industry's successful transformation and sustained adaptation. **Growers and millers alike should NOW take advantage of currently recovered prices to intensify innovation and improvements in their existing cultural practices and/or production processes to be even more cost-efficient.** I would like to have a special word of thanks to the Hon Minister and the SCE of the Ministry of Agro-Industry, their staff, the CEO of the MCIA and his team. I must, moreover, express my gratitude to my Vice President and other members of the Syndicate's Committee for their support during the year, and finally to the CEO and his staff for their dedication and hard work in fulfilling the objectives of the Syndicate.

As the old African proverb goes **"If you want to go fast, go alone. If you want to go far, go together."**