

Competitiveness

of local grain and oilseeds industries on the

global market



Globalisation is becoming more of a reality, not only in the industrial sector, but also closer to home in the agricultural industry. It can be seen in the consolidation of input suppliers and the effect of international prices on local ones.

Locally, producers compare crops and regions to determine competitiveness through study groups and several financial aspects. The big question, however, is how do we measure up to the rest of the world's producers when it comes to globalisation and the free market.

One of the major contributing factors in competitiveness is the subsidies received by governments. Global grain and oilseeds stocks are currently high and this puts pressure on prices, which in turn has a direct impact on profitability. The United States (US) government recently announced plans to support its producers with R96 billion. The aid comes as a result of low prices and represents an effort to ensure sustainable agricultural production.

Subsidies globally

The US is not the only country whose producers are being subsidised. Subsidies are determined by taking producer support estimates (PSEs) into account, as calculated by the Organisation for Economic Cooperation and Development (OECD). It is clear that countries in the European Union (EU) receive as much as 19,25%, but other countries' subsidies are relatively low (Table 1). In financial terms, however, subsidies are not a good principle to follow.

Table 1: Subsidies in different countries according to PSE calculations.

Developed economies		3-year average
Australia	%PSE	1,89
Canada	%PSE	9,65
EU	%PSE	19,25
US	%PSE	8,71
Emerging economies		
Brazil	%PSE	3,33
Russia	%PSE	6,82
Ukraine	%PSE	-6,13
South Africa	%PSE	1,67

The real issue is how competitive our local producers can produce at farm level compared to other countries. The Bureau for Food and Agricultural Policy (BFAP) forms part of the international agri-benchmark network, which collects this type of data through typical farming methods to be made available for comparison.

According to the report, it is clear that local maize, wheat and soya bean yields are within the international average, except for our typical irrigation farms (Figures 1, 2 and 3).

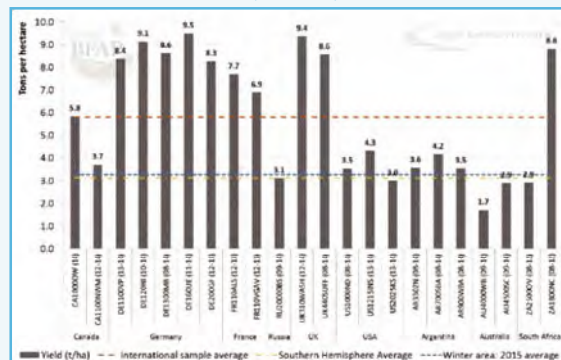
Figure 1: South African maize yield compared to other countries.



Figure 2: South African wheat yield compared to other countries.



Figure 3: South African soya bean yield compared to other countries.



Lower yields naturally have a direct effect on production cost per unit produced (Figure 4). From Figure 4, it is clear that South African production costs of maize are higher than the average of the participating countries, and that we cannot compete at cost level. This also applies to the wheat industry (Figure 5).

Figure 4: South African maize production costs compared to other countries.

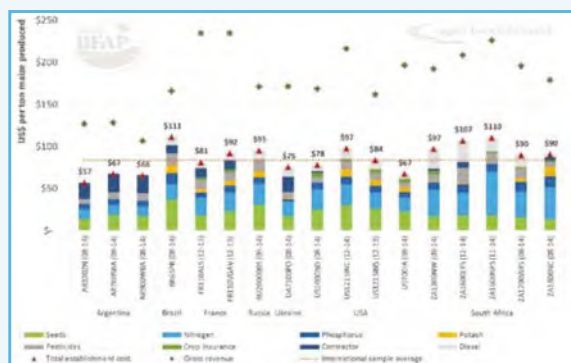
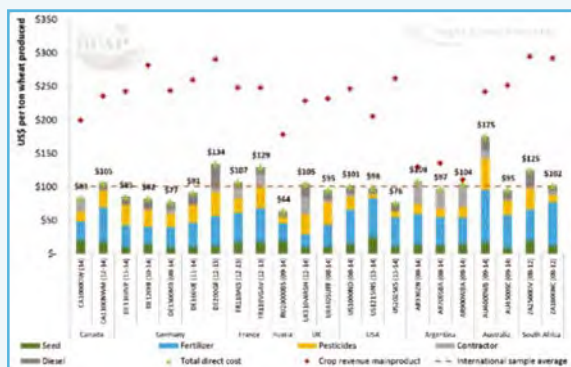
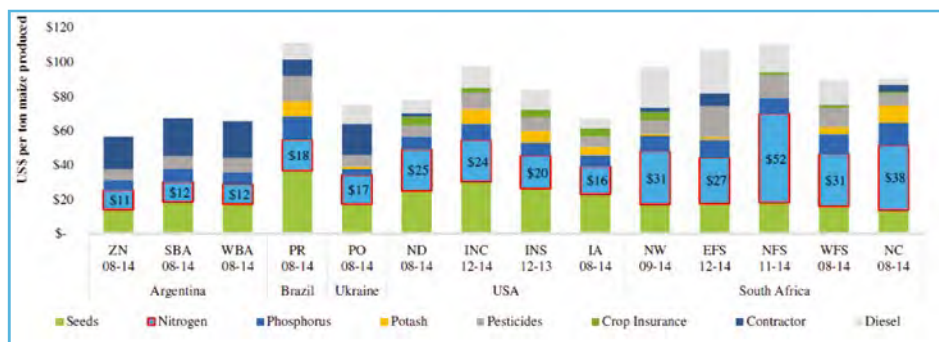


Figure 5: South African wheat production costs compared to other countries.



With regard to production costs, one of the major challenges is the effect of fertiliser prices on competitiveness. Fertiliser is one of the chief components of production costs, amounting to approximately 40% of maize production (Figure 6).

Figure 6: Percentage fertiliser of production cost.



Fertiliser prices

When comparing our fertiliser prices with those of other countries, it is clear that local prices are higher. Bear in mind that South Africa is a net importer of inputs. South African nitrogen (N) is the second-most expensive of the countries compared and its phosphates are the fourth-most expensive (Figures 7 and 8).

Figure 7: Cost of South African nitrogen compared to other countries.

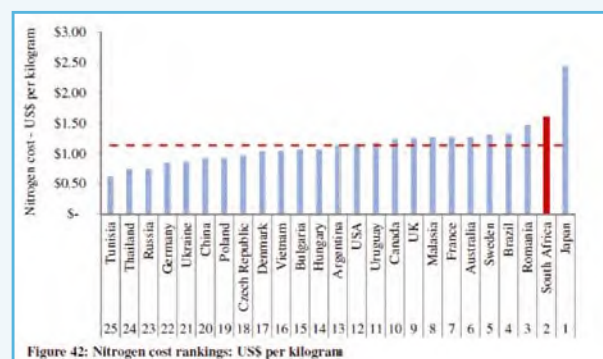
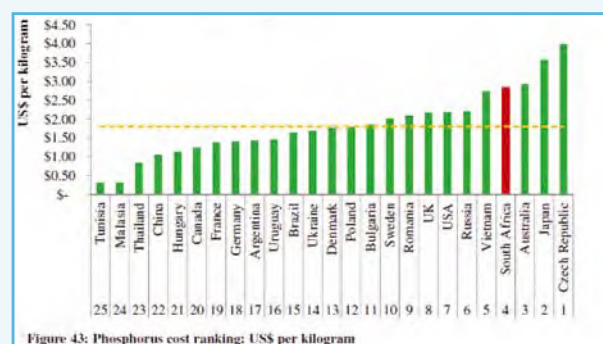


Figure 8: Cost of South African phosphates compared to other countries.

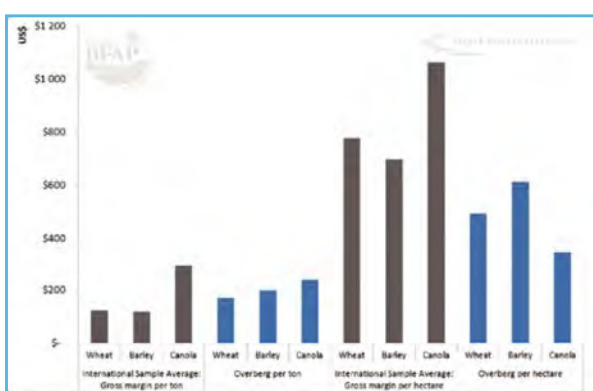
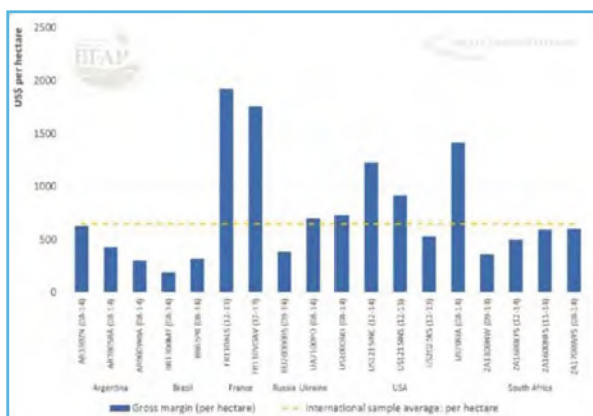


While local gross margins fall below the international average, South African production is not at the bottom of the spectrum. Our producers are still faring better than those in countries such as Brazil and Argentina (Figures 9 and 10).

The real issue is how competitive our local producers can produce at farm level compared to other countries.



Figures 9 and 10: South African gross margins in relation to other countries.



Local producers should be commended for the rapid growth in the market.

What, however, is needed to make South African production more competitive? The answer lies in support relating to sustainability and providing the producer with opportunities to build on recent growth, which will ensure food security over the long term.

Does this mean that our local producers are not good farmers and that we cannot farm competitively? By no means: In certain industries, the margins are still positive and farming remains competitive. Local producers should be commended for the rapid growth in the market. Improved technology, production methods and availability of seed have resulted in better results, and if it is possible to build on this, the local market will certainly become more competitive. There has been good progress in our grain industries in relation to the major global role-players, according to Figure 11.

Establishment of partnerships

More research and development should be undertaken to ensure that South Africa's growth is consistently superior to that of its competitors. This can only be realised by means of co-ordination and the establishment of public and private partnerships.

The availability of new technology specifically developed for local conditions, is extremely important to ensure yield growth. It is here that the end-point royalty (EPR) system will play a significant role in South Africa.

Crop marketing will play an even greater role in future. A substantial capital investment could see crop yields increase by a ton per hectare and with a good marketing strategy in place, even 3t/ha becomes a possibility. In short, it will become increasingly important to invest in marketing.

The effective use of inputs will be equally important. This does not necessarily mean using the most inexpensive inputs. Producers will have to consider applying standard financial principles to production, where input will provide them with the highest yield at the highest profit margins possible. Simply put, use the per-unit application that promises the highest profit.

Figure 11: Progress in South African grain industries.

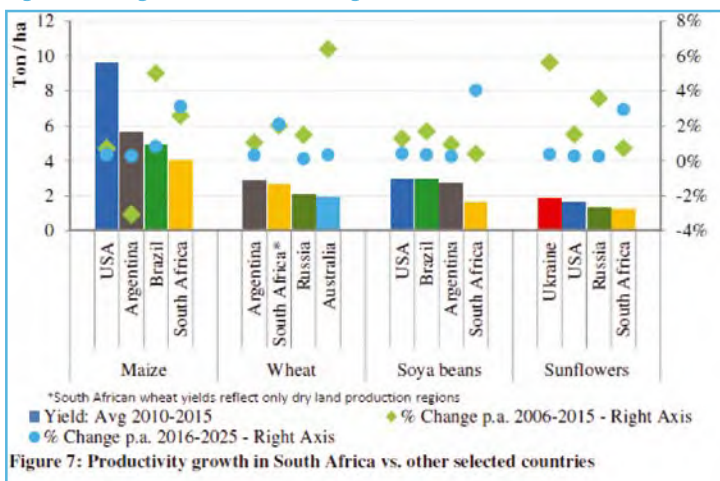


Figure 7: Productivity growth in South Africa vs. other selected countries

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