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THE COMPETITIVENESS OF THE OILSEED VALUE CHAIN

The rapid growth of the South African soya bean crop over the past five years was achieved through an annual average expansion of 21% in hectares planted and an average yield increase of 4% per annum.

The canola industry has exhibited similar growth rates with its area under production, expanding by an annual average of 22%, with average yields increasing by approximately 8% per annum. With the soya bean crop estimated to have surpassed the one million ton mark in the recent summer season and the canola crop estimated to come in at approximately 110 000 tons, both industries have been able to expand and intensify the local crop.

Potential for expansion

With the rapid increase in the local feed market and the demand for oilcake, the majority of oilcake has to be imported amid the lack of local crushing facilities. The country is also a net importer of vegetable oil. With significant potential for expansion in the supply of feedstock and product markets, an attractive opportunity has been created for investment in crushing facilities. Numerous companies identified this need and new crushing facilities have become operational.

The total soya bean crushing capacity in South Africa is now estimated at 1,75 million tons. Considering the additional plants now able to switch between soya bean and sunflower crushing, this capacity could be expanded to over 2,5 million tons if dual capacity plants were to crush soya beans only. The local crushing capacity of canola has also expanded with the growth in local production and is estimated at 140 000 tons.

Crushing capacity utilisation

International comparisons indicate that long-term crushing capacity utilisation tends to remain below 85%, with 80% being the benchmark for modern crushing facilities. Applying a benchmark utilisation rate of 80% to future soya bean crops, as projected in the latest *Bureau for Food and Agricultural Policy (BFAP) Baseline 2015*, certain dual crushing capacity facilities will need to convert to soya bean crushing after 2017. By 2024, all of the dual capacity facilities will have to be utilised for soya bean crushing, if the projected crop of 2,2 million tons is to be crushed without further capacity expansion.

South Africa currently has a major surplus of crushing capacity with utilisation rates at some crushing plants being relatively low, due to a shortfall of domestically produced soya beans as well as technical challenges in newly constructed plants. This has placed crushing margins under significant pressure.

While some soya bean imports have been forthcoming over the past two seasons, domestic soya bean prices remain well below import parity levels, as they are derived from the price of oil and oilcake. Crushing margins tend to come under immense pressure when the cost of beans increases to import parity levels.

Utilisation rates are projected to improve in the next decade, with domestic soya bean production set to expand by more than 100 000 tons per annum on average. Consequently, only a limited volume of soya beans will be imported.

Global competitiveness

South Africa remains a small player in the global oilseed market. With multinational companies actively involved in the local market, the industry faces a competitive environment. Structural adjustments in price discovery are also occurring.

Whereas the local soya bean seed

price used to be mainly driven by supply and demand and traded closer to export parity levels, it is now derived from the underlying fundamentals in the cake and oil market. Soya bean seed prices now tend to trade in the middle range between import and export parity. This structural shift has boosted the relative competitiveness of soya beans compared to maize. BFAP's projections indicate that the soya bean-to-maize rotational cropping pattern will likely shift to a 40:60 ratio over the next decade.

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The soya bean and canola industries are linked to a long, integrated value chain. Expansion in production and processing has major implications for role-players, due to upstream and downstream linkages. Role-players are also undergoing a period of adjustment which is critical to improve industry competitiveness and sustainability. Profit maximisation is occurring at every level. If chicken or oilcake can be imported at a lower price, mills, traders and retailers will consider this option.

The basic principles of competitiveness link to the farm gate, where yield improvement and more efficient farming practices form the foundation for further expansion. It is encouraging to observe the latest results from the soya bean elite cultivar trials supported by the Protein Research Foundation (PRF), which indicate that significant yield improvements can be expected from the introduction of new cultivars in the local market. 🌱