An overview of the efforts to save the wheat industry

Presentation to the Wheat Indaba

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SA WHEAT INDUSTRY

CEREALS

History of the Wheat Forum

- Wheat Forum established in 1996/1997
- Represents all role-players in the wheat value chain
- Purpose = to fund research in the wheat industry due to government's decreasing involvement
- Financed by the Winter Cereal Trust
- Purpose changed = Deal with all matters of common interest to the industry
- Ad hoc meetings - only 'common table' for industry members

CEREALS

Wheat Industry in trouble

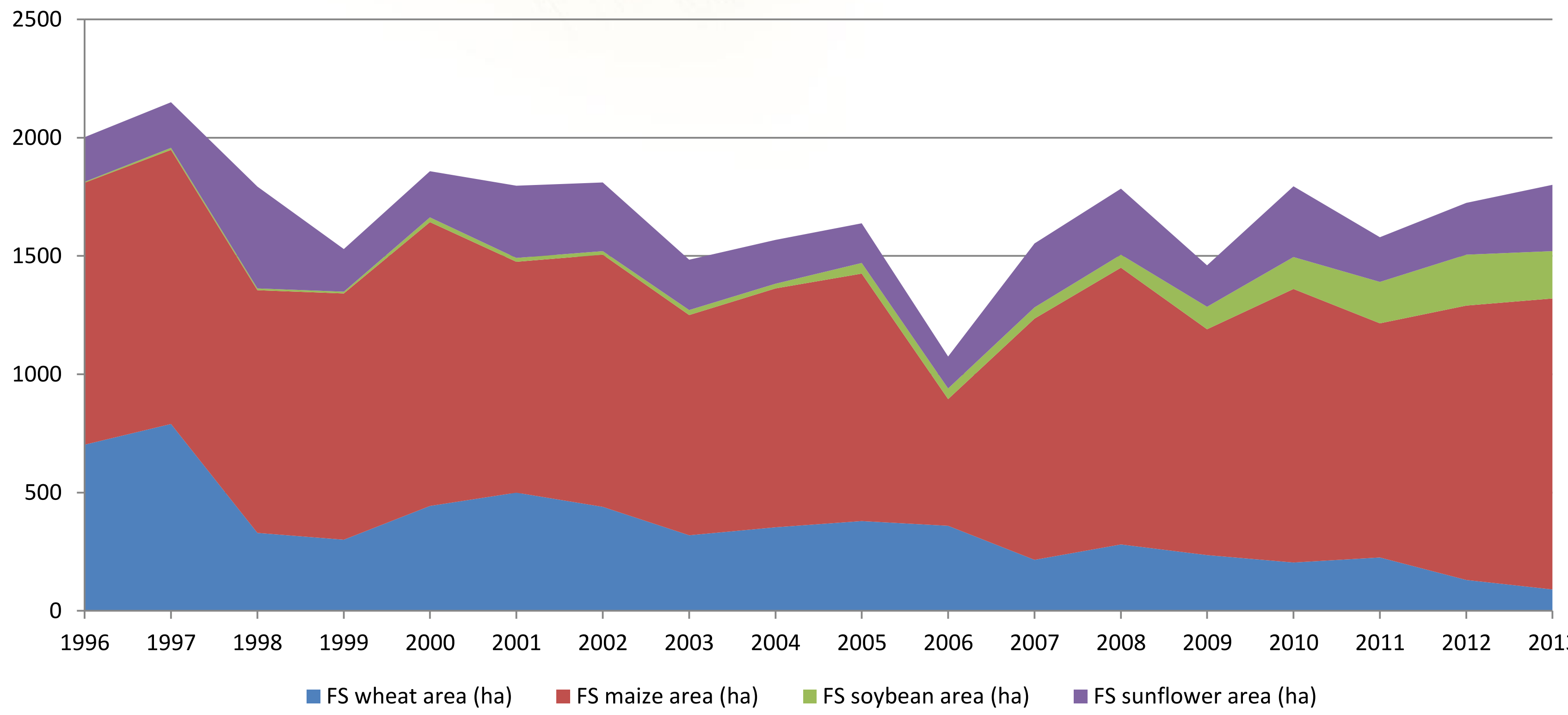
- 2000 ++ Growing problems in the local wheat industry
- Debate regarding the former SAFEX's wheat transport differential (Western Cape)
- 2013 GSA Congress – Status of the wheat industry – Sustainability?
- GSA raised the matter at the Wheat Forum
- Bureau for Food and Agricultural Policy (BFAP) - An assessment of the drivers influencing wheat production in South Africa (funded by the Winter Cereal Trust)
- BFAP delivered a concept result on 24/02/2014
- Elements of this study were presented to the Wheat Forum in October 2014
- Focus on the industry

Status of the wheat industry

- Mid 70's SA produced 20% surplus wheat
- Consumption doubled and production halved
- SA imports now 50% of demand
- Total wheat production area declined by more than 60%
- Total production relatively stable – yield increases

CEREALS

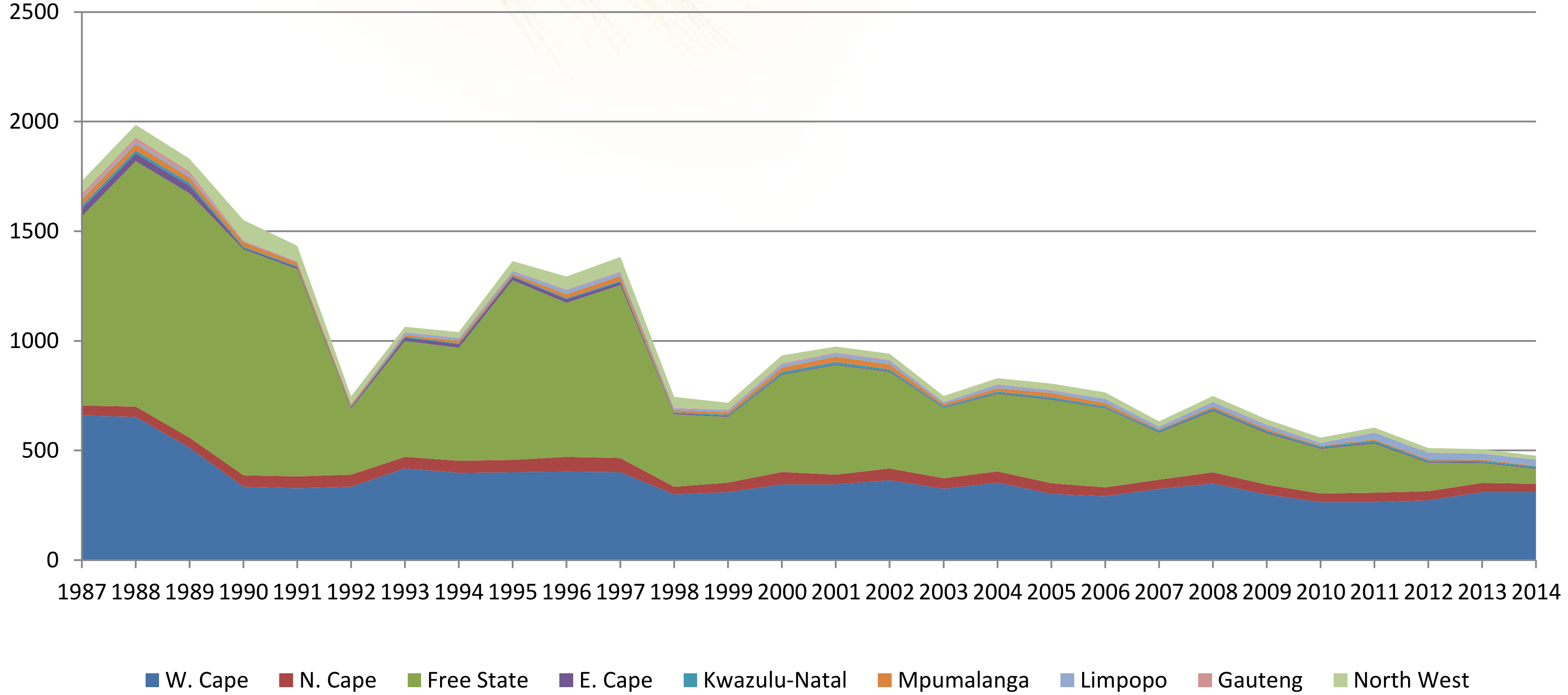
Free State wheat, maize, soybean and sunflower area planted ('000 ha)



Source: BFAP

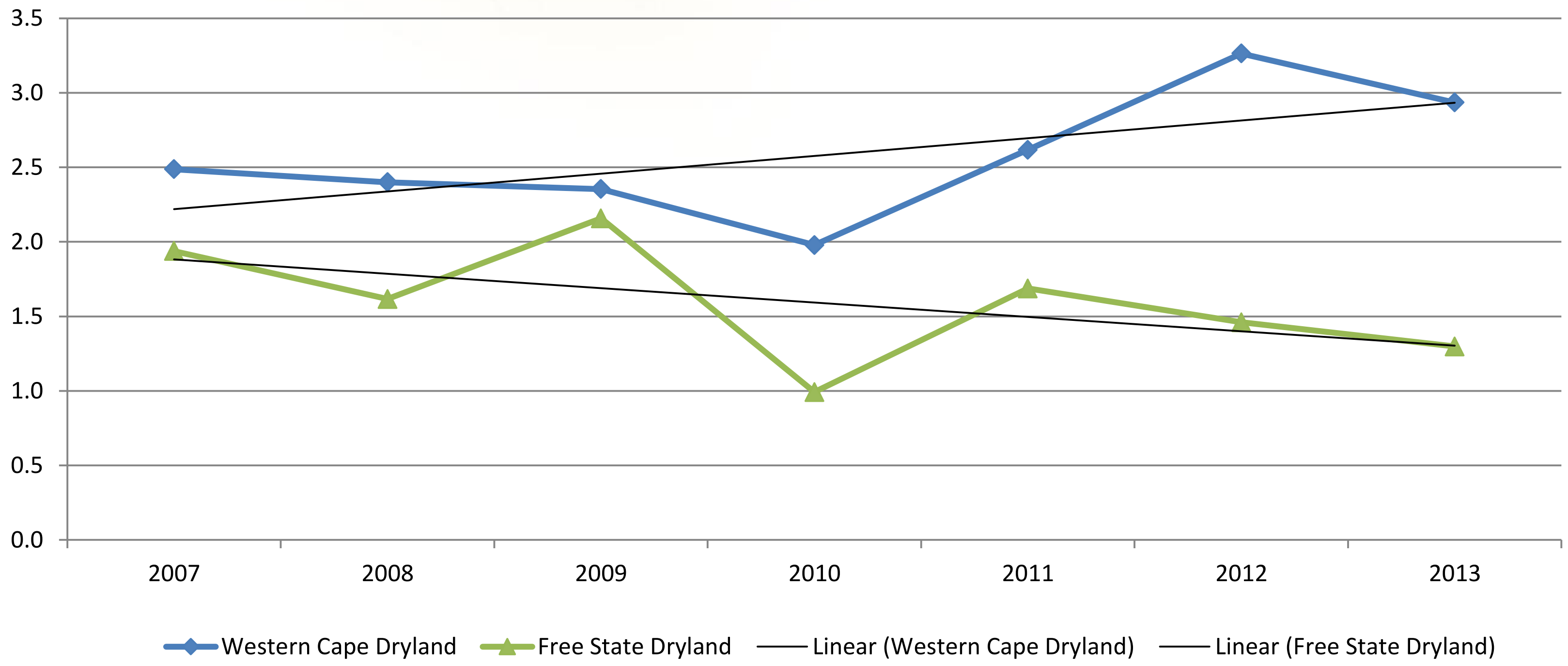
CEREALS

Provincial wheat area trends



Source: BFAP

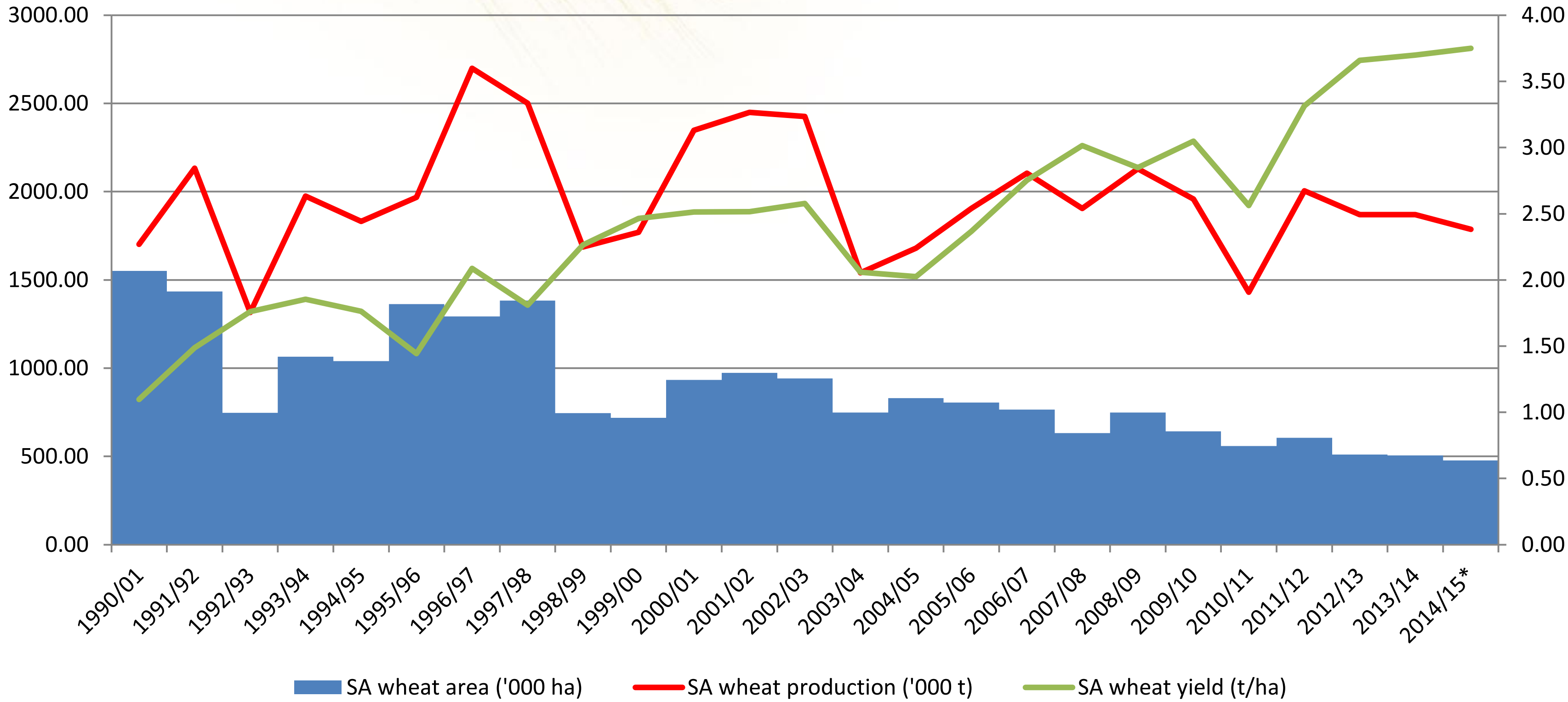
Dryland wheat yield comparison (t/ha)



Source: BFAP

CEREALS

SA wheat area, production and yield



Source: BFAP

CEREALS

BFAP reports on wheat production

- Free State
  - Climate, competing commodities, quality problems, yield volatility
- Winter rainfall areas – fewer alternatives
- Significant productivity gains in the past decade, reflecting average annual yield growth of 2%
  - Continuous loss of lower potential area in the Free State, as the share of irrigated wheat and that of higher potential soil in the winter rainfall in total area has increased
- SA remains high cost producer relative to world leaders
- Climate / Relative yield / Production cost = Sustainable Business model?
- Tariffs - Protect industry – International competitiveness??
- Western Cape and irrigation areas

CEREALS

Process

- **The issue was referred to the Technical Committee which reported back to the Wheat Forum on 06/02/2015**
- **Proposal package:**
  - Amendment of the wheat grading regulations (Super grade)
  - Cancellation of the R100/mt discount applicable to the delivery of foreign origin
  - Reference price base of wheat on the JSE
  - Changing of the price differentials between wheat grades
  - A minimum grade guarantee on JSE wheat receipts with zero compensation for the service provider
  - Quality segregation at storage facilities
  - Relaxation of the cultivar release criteria
  - Introduction of an End-point royalty system

The meeting reported no consensus – matter referred back to the technical committee which held several meetings

Effect of action plan on all role players

	R100/SAFEX DELIVERY	GRADING – SUPER GRADE	2% QUALITY DIFFERENTIAL	GUARANTEED SILO RECEIPT
IMPORT PARITY	DOWN	SAFEX NEUTRALISE	SAFEX NEUTRALISE	SPREAD SMALLER
STORERS	NEUTRAL (SILO UTILISATION)	PRACTICAL CHALLENGES	MAJOR FINANCIAL IMPACT	MAJOR FINANCIAL IMPACT
TRADERS	ARBITRAGE OPPORTUNITY	RELATIVE NEUTRAL	RELATIVE NEUTRAL	LOWER RISKS
PROCESSORS	BENIFICIAL	NEUTRAL	NEGATIVE MANAGABLE	BENIFICIAL
SAFEX	NEUTRAL (MORE DELIVERIES?)	NEUTRAL	NEUTRAL	NEUTRAL (MORE DELIVERIES?)
PRODUCERS	NEGATIVE	SOME NEGATIVE AND SOME POSITIVE	NET NEUTRAL MARGINAL POSITIVE	NET NEUTRAL

CEREALS

Process

- **Wheat Forum 9/11/2015 – no Consensus – referred back to the technical committee with some execution mandates should quick implementation be possible on some matters**
- Several meetings of the Wheat Forum Steering Committee and Technical committees were held
- Several bilateral meetings between industry bodies, as well as between industry bodies and individual members of industry bodies were held
- **Wheat Forum 8/4/2016** (Only End-point royalty levy system discussed – no wheat industry revival matters discussed)
- **Wheat Forum 22/04/2016** (Only statutory Levy – End-point royalty levy system discussed)

CEREALS

Process and Progress

- **Wheat Forum 06/02/2017** – for the fist time discussing the revival matters again after 9/11/2015 – still no consensus and limited progress
- **Progress:** New JSE contract specifications = Guaranteed Grade Wheat certificate introduced

  Packaged deal including the following:

  - Drop the wheat origin discount of R100 on the JSE for imported wheat
  - reduce the wheat grade discounts between grades from 4% to 2%.

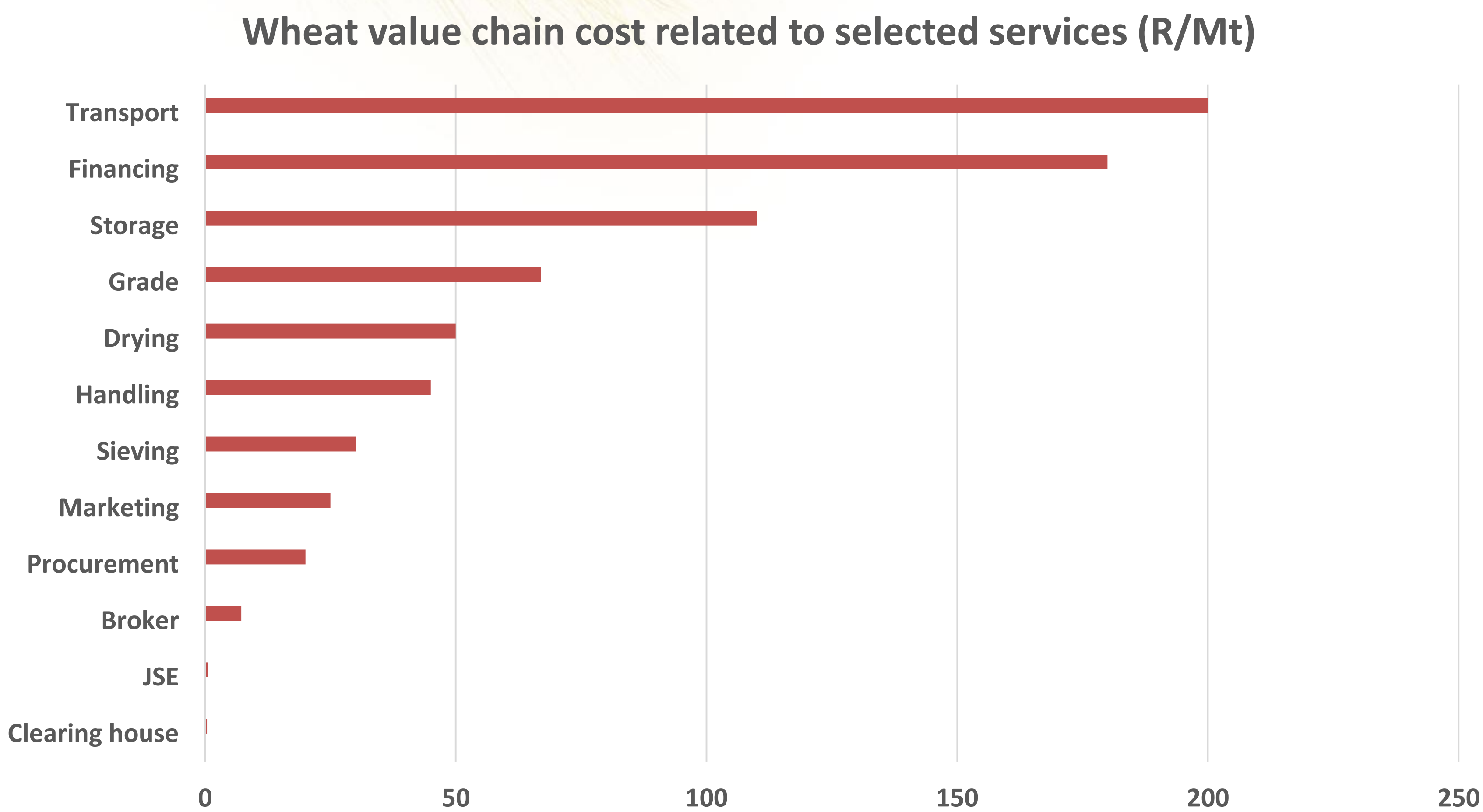
CEREALS

Why is it so difficult to find a solution?

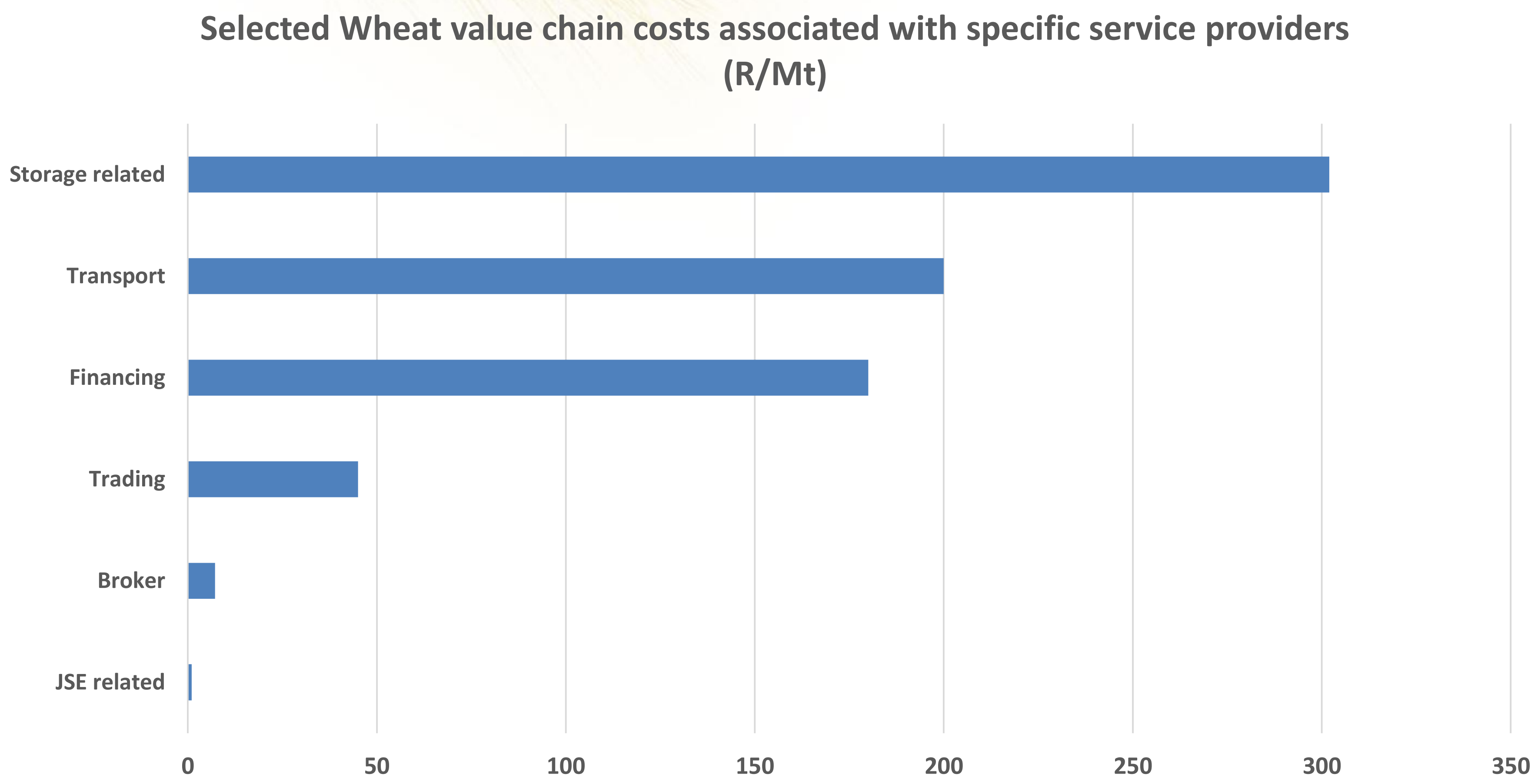
- JSE contact for the next season
- Competition regulatory requirements
- No consensus on the industry benefits of some of the proposals
- Proposals demanded major structural changes
- Proposals exposed some of the unique structural characteristics of the local wheat industry
- The requirement of ‘all or nothing’
- No consensus within some industry representing bodies
- ‘Winners and losers’
- Size of the industry – meeting scheduling difficulties

CEREALS

Distribution of selected costs in Wheat Value Chain



Distribution of selected costs in Wheat Value Chain



Progress

- Operation 'Revival of the wheat industry' is now nearly 3 years old
- Progress slow!
- Success:
  - Guaranteed Grade Contract
  - R100/mt wheat of foreign origin
  - Grade discount 4% to 2% ???
  - Developments regarding the End-point Royalty system (Eindpunt Tantieme stelsel)
  - Developments regarding cultivar release criteria

Future

- Acceptance of the proposed new grade discount?
- Other grading proposals (Super Grade)
- Import duty (Formula revisited after 14 years,
  March?, Lower?, R700-R800??)
- The status of the Wheat Forum?
- Can the industry work together?
  Own interest vs. Industry interest
- Transformation agenda?
- Politicising on all levels