Overview of the issues impacting the domestic wheat industry

Presentation by Pieter Esterhuysen

Agbiz Grain Mini Symposium

12/08/2015

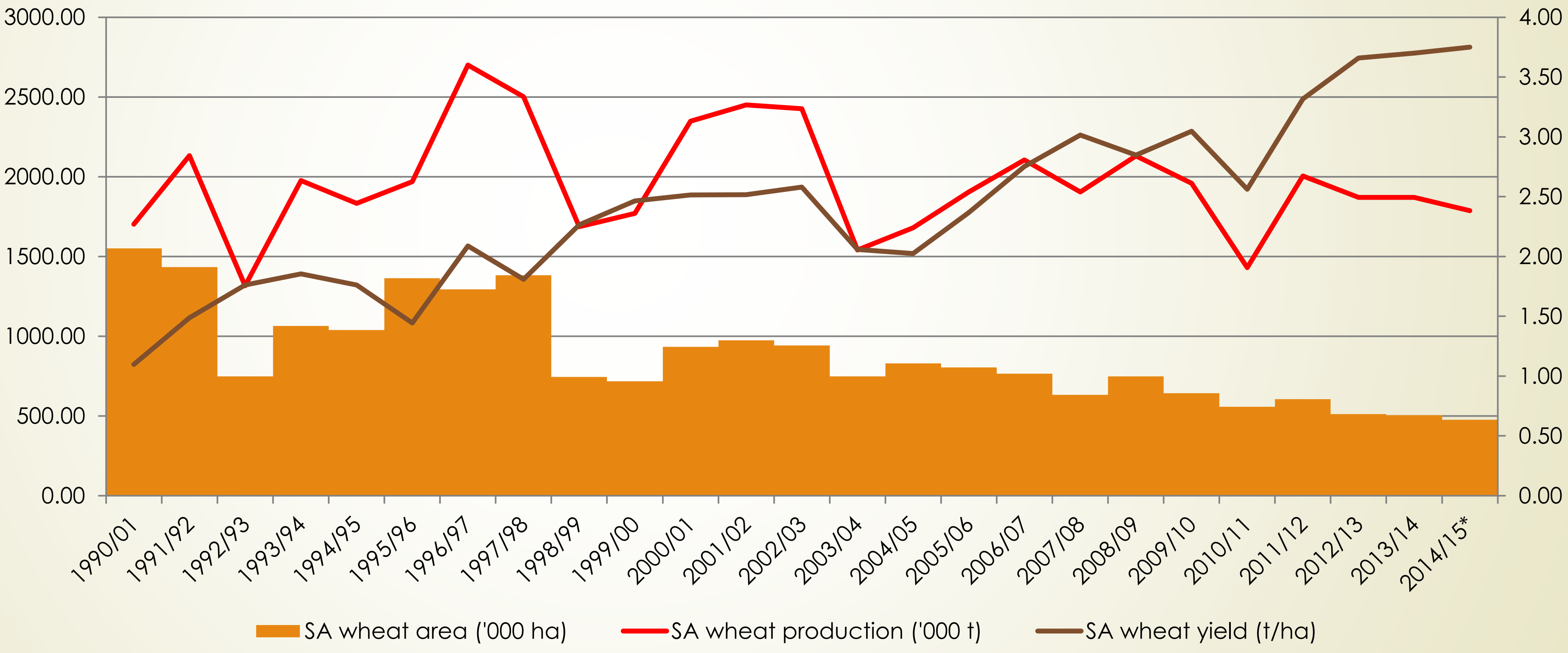
Content

- The general health of the domestic wheat industry
- Industry initiatives and actions taken
- Industry proposals
- Effect of proposals on the different role players
- Actions taken by Agbiz Grain and the way forward

General health of the domestic wheat industry

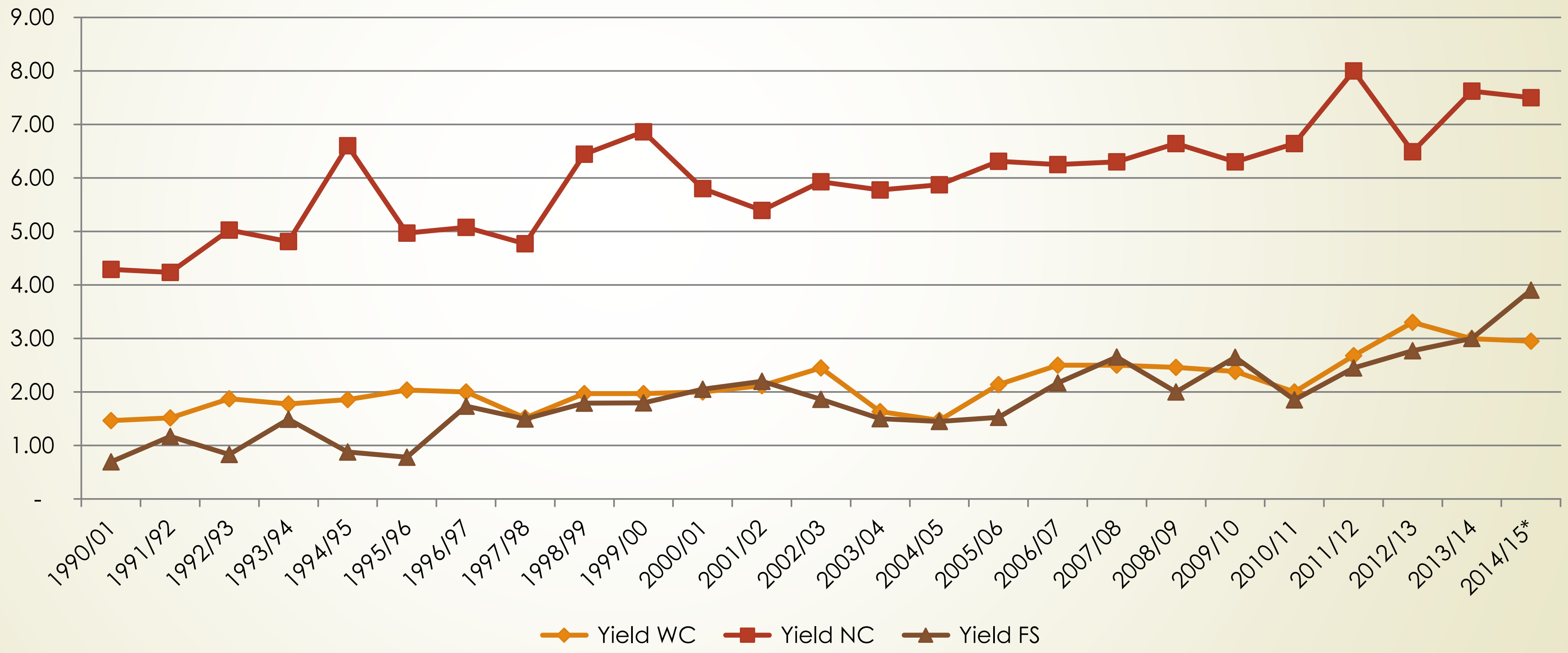
- Mid- seventies - SA produced 20% more wheat than domestic demand
- Domestic demand doubled while domestic production halved.
- 1988 SA planted 2 million hectares to wheat
- SA is currently producing 50 % of local demand (imports 50% of wheat)
- Cultivated area decreased with more than 60% since 80's
- Yields increased due to better production practices, cultivar improvements and increased irrigation
- Dryland Free State comprised about 50% of SA total hectares planted to wheat in the 80's – now only about 14%

SA wheat area, production and yield



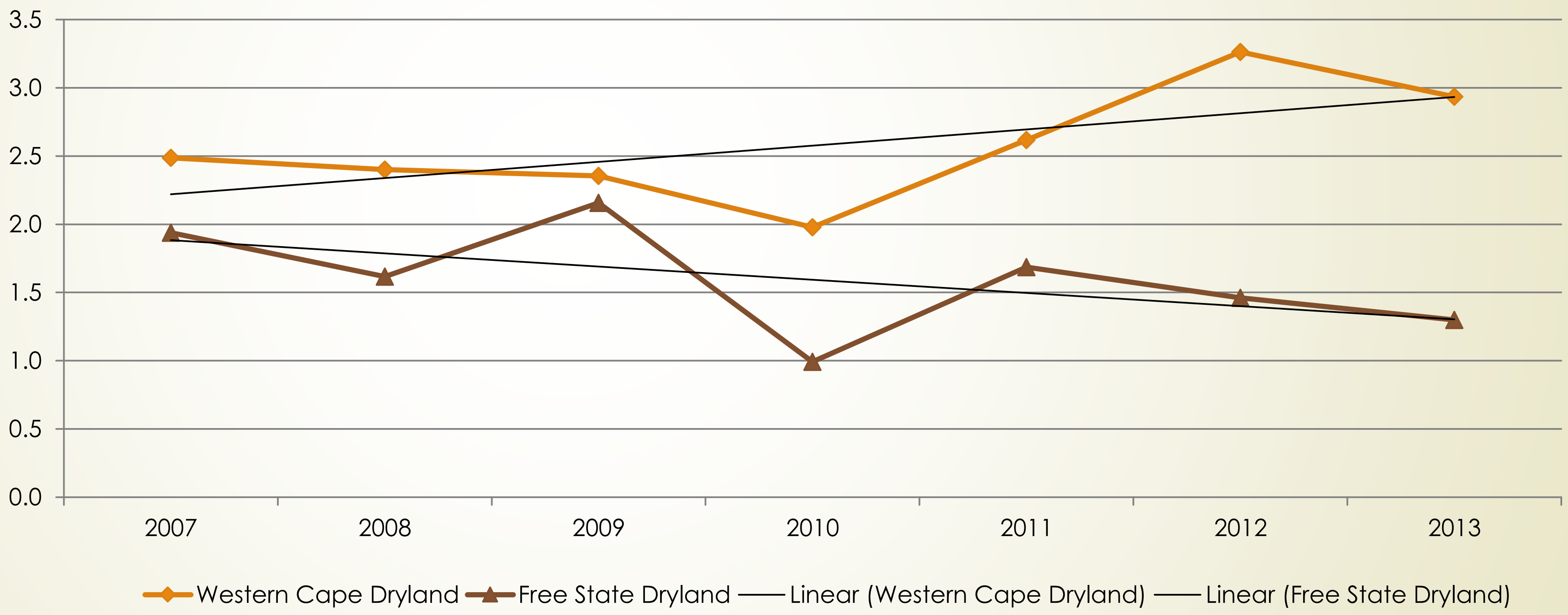
Source: BFAP

Wheat yield trends in the main production regions (t/ha)



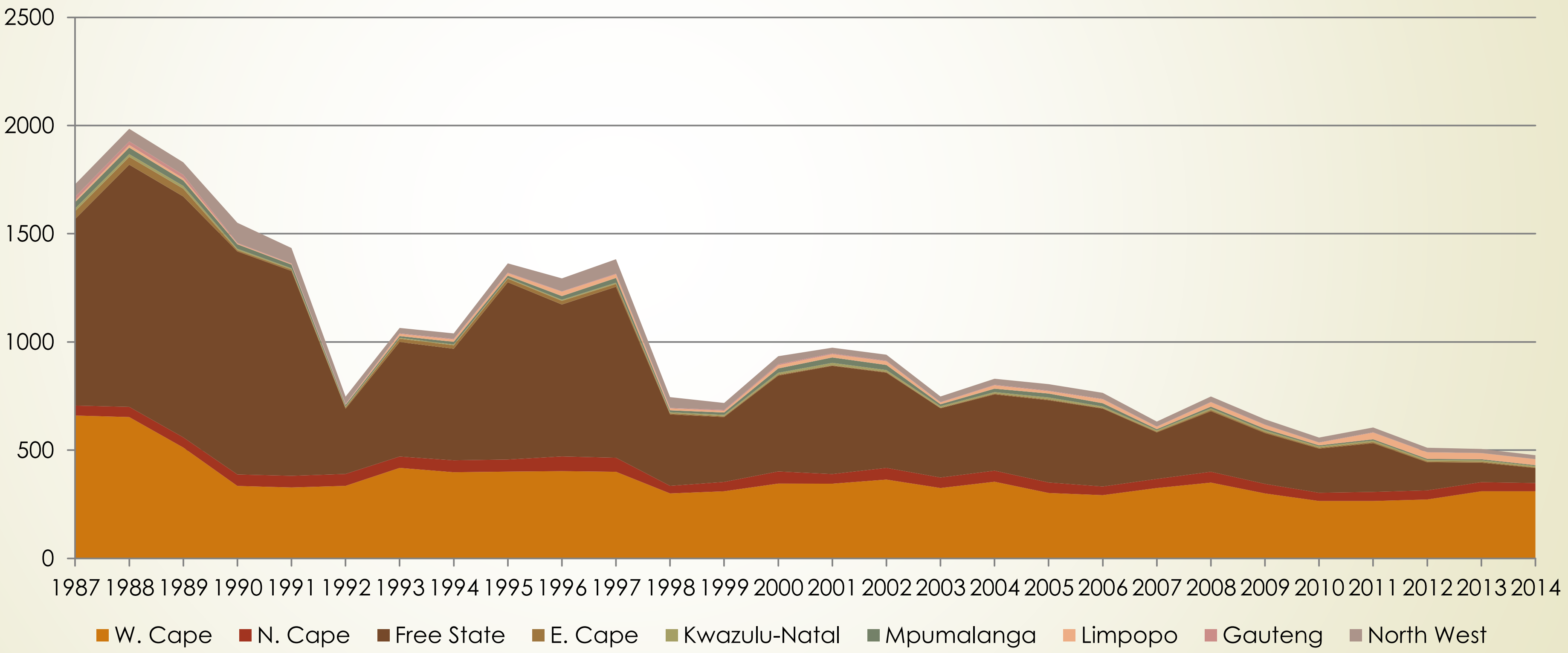
Source: BFAP

Dryland wheat yield comparison (t/ha)



Source: BFAP

Provincial wheat area trends

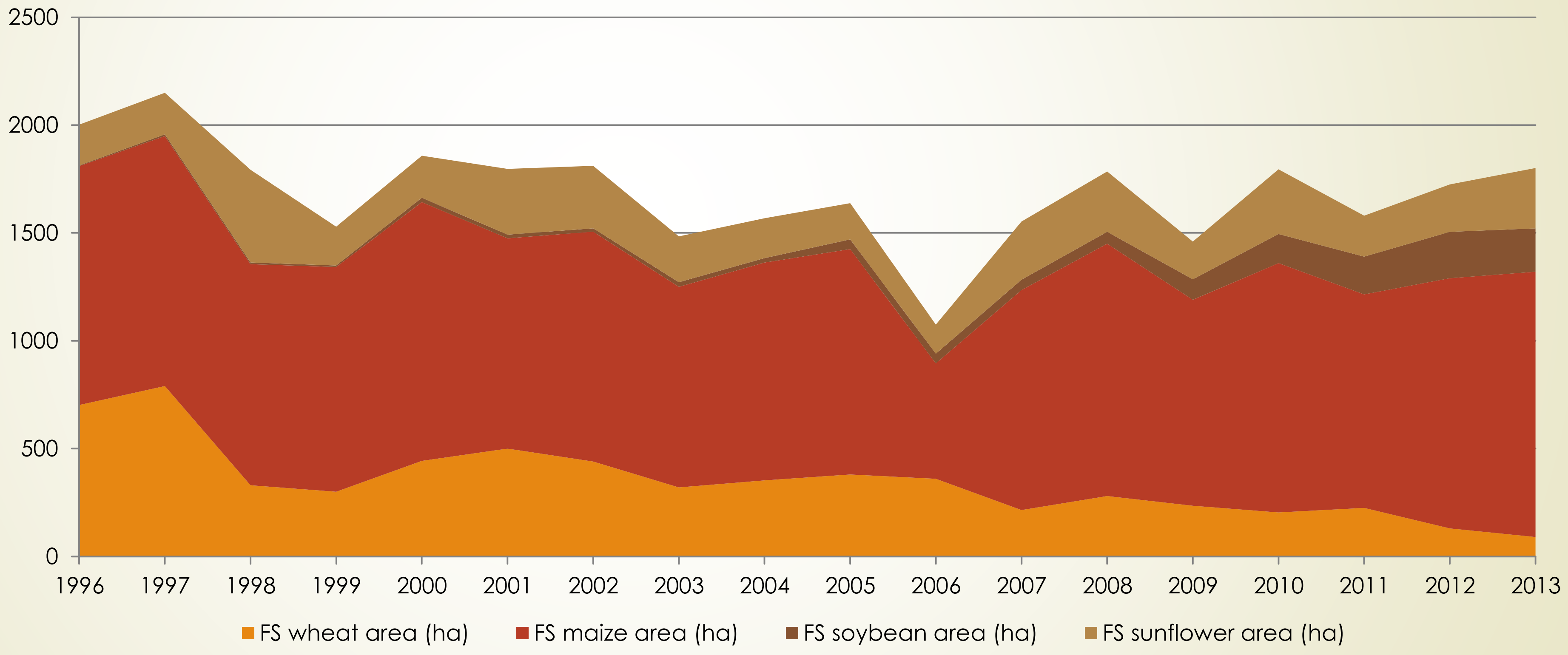


Source: BFAP

Provincial wheat production trends

- Western Cape production – stable at +-300 000 ha – business model still reasonably acceptable
- Irrigated area increased from 19% in 2017 to 29% in 2013 (N.Cape) – business model seems to be acceptable
- Decrease in especially Free State hectares - business model questionable
- Dryland Free State comprises about 50% of SA total hectares planted to wheat (now 14%)
- Government incentives substitute wheat hectares to grazing pasture
- 1992 severe drought
- 1988 +- 1 mil ha in Free State – 2014 +- 70 000 ha = 7%

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



Source: BFAP

What happened?

- Climate change – relative rainfall trends – especially seasonal trends

  (Free State negative/irrigation boost/Western Cape neutral)
- SA relative international competitiveness – cost vs. yield/production

  (Import parity + tariff protection = Enough?)
- Risk profile associated with wheat production

  (Grading/climate sensitive……)
- Relative profitability of alternative crops

  (Barley….)

Commercial

Action plan

- Wheat Forum – recognised the **serious condition** of the domestic wheat market– decided to take serious action to save the industry
- Industry meetings in 2014-15
- Prime focus
  - Grading regulations
  - Cultivar - relaxation of release criteria vs. removal of list
  - Wheat market – 4 major proposals

Proposed actions in the wheat market

- Cancellation of the **100/mt discount** applicable on delivery of **foreign origin** wheat on SAFEX

  (Requested by the processors for protection against uncertain foreign wheat spec)

- Proposal regarding new grading system – Super grade and no B4
- Proposal regarding the change in the grade differential – from 4% to 2%
- Transformation of the SAFEX wheat silo receipt into a minimum guaranteed receipt with zero remuneration for higher grades dispatched

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

Agbiz Grain - Way forward

- Internal evaluation of the proposals made by the producers and processors
- Consultation with grain handlers – not members of Agbiz Grain
- Informal and formal consultation with GrainSA
- Consultation with the major processors individually
- Working session for Agbiz Grain members – final evaluation of the proposals and the formulation of alternative and/or supportive proposals by Agbiz Grain
- Feedback to the Wheat Forum and co-operation with the industry in any reasonable initiative