Grain and oilseed industry growth hampered by inefficient transport

By André van der Vyver, executive director, Sacota

Farmers will produce a near-record soya bean crop in 2022 with the Crop Estimates Committee's third estimate at 1,89 million tons – only 11 000 tons less than the record of 1,9 million tons in 2021. If not for excessive rain in some areas causing damage, we would have seen another record crop. The trend is clearly upward. Recent maize numbers are no different and sunflower seed bounced back with a current crop estimate of 963 000 tons.

Although each industry is different and the soya bean and sunflower seed industries have different product cycles, for the first time several commodities are either exceeding local demand or about to.

Thriving in the long term

For the South African grain and oilseed industries to prosper in the longer term, we need exportable surpluses to increase year on year. Globally, the commodity business is a volume business, meaning low margins and high volumes in most years.

Although South African prices will trade down to export parity for longer periods, this not only means that surpluses can be exported, but also that those commodities are made available to the local market at the cheapest possible prices. This, again, is beneficial for industries depending on commodities as their major input, such as maize millers and feed manufacturers. It also promotes food security in the cheapest possible way, as well as job creation in rural areas.

There is another unique phenomenon with reference to export parity prices. Relatively high international prices, combined with improved production technology and high yields in 2021, meant that many farmers in the eastern Free State, parts of KwaZulu-Natal and southern Mpumalanga could sell for the export market and still make a profit.

Grain SA's budgeted numbers for 2021 showed that farmers would have made a net profit of R692 per ton on a 6t/ha yield. However, actual prices (including premiums) in July 2021 were much higher than the R3 317 per ton used in the budgets. This is a win-win for the industry and South Africa. Global demand for commodities is likely to remain strong, with expectations that post-Covid and post-Ukraine, the world should see a return to high growth and demand.

The unprecedent growth in soya bean production will continue although local inland demand is nearing a saturation point. However, as the central and western production areas continue to expand areas under production and improve on yields, these areas could supply the local market while the eastern production areas could potentially be more suitable for exports.

Export challenges

When doing the same calculation for soya beans produced in the eastern production areas, it could be profitably exported with a net profit of approximately R2 142 per ton ex-farm. This far exceeds storage and transport costs to deliver the product to Durban harbour. Actions are already underway through organised agriculture to prepare the industry for exports.

The lack of an efficient transport network may scupper the long-term potential of the grain and oilseed industries. Through its three Durban bulk grain export/import terminals, South Africa currently exports, on average, seven supermax vessels of roughly 55 000 tons of maize per month – this is maximum capacity. Any future soya bean exports are likely to compete with maize exports.

Even if more vessels could be loaded by increasing capacity at Agriport, supply and removal of products will be a major challenge. Maize and soya beans need to be transported to Durban, and wheat and rice removed from the harbour.

The South African Cereals and Oilseeds Trade Association (Sacota) was instrumental in the re-opening of the port of East London. To date this year, two maize export vessels have been secured, with four more export slots available. Diverting exports through East London may hold part of the solution for the future.

Prioritising the transport hurdle

Globally, cost-effective exports depend on an efficient value chain from farmer to the port, of which storage and transport are two key factors. South Africa is fortunate to have world-class storage facilities. When it comes to transport, as much as possible should be transported by rail and the balance by road.

Our Durban export terminals can handle approximately 35% of volume by rail. Around mid-2021 this percentage was approximately 20%. However, since September 2021, cable theft has caused the percentage to drop to 10%, and at times as low as 5 to 6%.

Although there are ongoing efforts by Sacota in collaboration with storage owners, Grain SA and Transnet Freight Rail (TFR) to address this, it will take time. One such project is a pilot project to install private security cameras on the railway export line. TFR has also launched a project to auction railway line slots for the private sector to lease and manage these services. Although bulk export lines to Durban do not yet qualify, it may be a possibility in the future.

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