Soya bean meal import duties:
An integrated value chain approach

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The success of the South African soya bean value chain over the past decade has been well documented. In essence, a favourable investment environment coupled with clear policy mandates by the Department of Trade, Industry and Competition (DTIC) triggered the private sector to invest in excess of two million tonnes of crushing capacity during the early 2010s. These investments, combined with extensive cultivar trails and the introduction of the technology levy paid by producers to incentivise seed companies to provide South African producers access to the latest seed technology, ignited the rapid expansion in production.

Growth in the industry

The South African soya bean industry has been one of the fastest growing agricultural subsectors over the past two decades. The industry expanded production from merely 264 000 tonnes on 165 000ha in 2008 to more than 2,7 million tonnes on 1,1 million ha in 2023. Consequently, the crushing levels of soya beans also increased and in 2023 South Africa, for the first time in history, produced sufficient soya bean meal to meet local demand and replace all imports of soya meal.

Furthermore, South Africa exported 277 000 tonnes of soya beans in 2022/23 and for the 2023/24 marketing season, total exports are projected to reach almost 600 000 tonnes.

Over the past two years, the local industry has transitioned from being dependent on imports to self-sufficiency and local prices have shifted to export parity levels (*Figure 1*), which implies that local soya beans are trading approximately 30% below the value of imported beans. This has boosted crushing margins and volumes significantly, and put crushers in a position to offer significant discounts compared to import parity prices of soya meal. In fact, for the current marketing season it is expected that approximately 1,8 million tonnes of soya beans will be crushed.

Discounts on soya meal are exceeding R2 000/t in the inland market, and meal is being transported to coastal areas, where approximately 25% of domestic feed is being consumed. Local soya meal prices are trading well below import parity prices, and therefore benefitting the local intensive livestock industries' overall profitability and relative competitiveness. Also, the production of soya vegetable oil increased rapidly on the back of higher crushing volumes, thereby replacing vegetable oil imports.

All in all, one could argue the industry has found a new equilibrium, or what the Bureau for Food and Agricultural Policy (BFAP) referred to in its *Baseline* projections several years ago as the "second phase of growth" in the soya

value chain, where the local industry will have to compete and be economically sustainable at export parity levels.

The new equilibrium

Figure 1 presents a typical Baseline outlook where the local soya value chain expands at a much slower pace over the outlook period, basically capped by the sluggish growth of meal demand in the animal feed industry. Total production is projected to reach just over three million tonnes by 2032, with national average yields at 2,6t/ha and exports increasing steadily to just over 700 000 tonnes.

It is important to realise that this is only one plausible outcome in respect of the future of the soya value chain under a specific set of assumptions, which could change in future. The recent drive by the Animal Feed Manufacturers' Association (AFMA) to apply for the reduction of import duties on soya meal, serves as a good example of external factors that could change and have decisive impacts on the future of the industry.

Taking into consideration the current state of the soya value chain, as summarised here, one can imagine members of AFMA would feel that the import duties can be reduced since South Africa is not importing soya meal and the level of the duty has little bearing on prices. Yet soya bean production levels could be adversely affected by the weather.

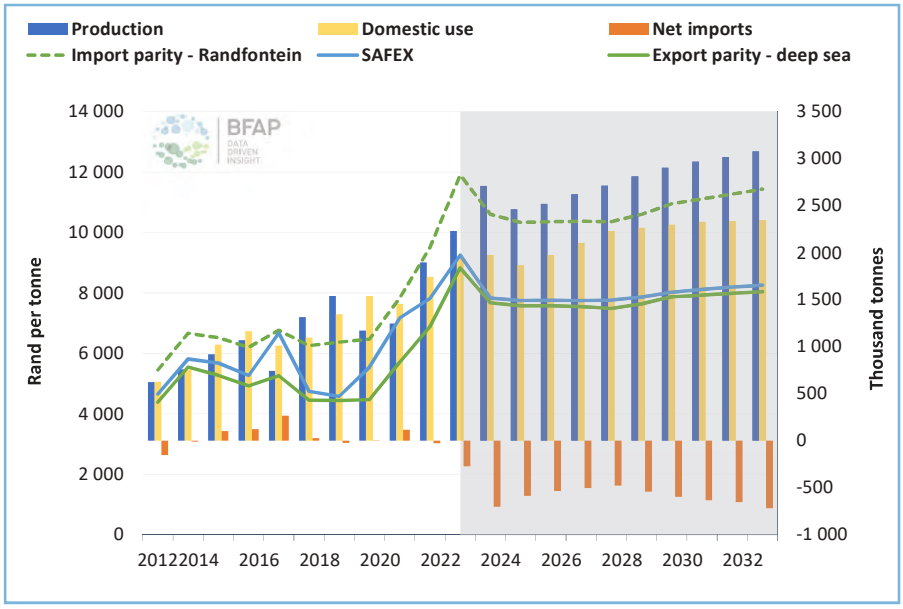
For example, in the current 2023/24 production season the total area under soya beans has declined by approximately 80 000ha. Although this area would under favourable weather conditions be sufficient to produce a surplus crop, many regions have reported crop damage due to drought conditions, and the national average yield will most likely be lower than over the past two years.

Effect of transport costs

Feed mills in the coastal regions argue that they are carrying the costs of the import duty during periods when the discounts on meal are not big enough to offset its high transportation costs to the coastal regions. By reducing the import duty, the import parity prices for these mills would be lower and thereby push down local meal prices to compete with imported meal.

Transport costs from the northern production regions to the coastal areas are extremely high, mainly due to the collapse of the rail network and all products must be transported by road. Currently, it costs approximately R900/t to transport meal from the north to the coastal production region, yet it costs only R600/t to transport meal from Argentina (the top exporter of soya meal in the world) to Cape Town per ship.

Figure 1: South African soya bean production, consumption, trade and prices. (Source: *BFAP Baseline 2023*)



The competitiveness of the local industry not only comes down to the relative prices, but also hinges on the quality of the meal produced. Although some South African crushers found it challenging to match the quality of imported meal from Argentina in the initial years, the quality of soya bean meal produced in South Africa has improved to such an extent that it is widely considered superior to that of Argentina. Recent studies from Europe have found that South African soya bean meal is superior to Argentine soya bean meal.

Quality and competition

Although the coastal mills are making a valid argument regarding the costs of import duties, it does not hold for the regions where the bulk production and processing of soya beans of the country takes place. Currently, the complete value chain is reaping the benefits of investments and policy support over more than a decade. Soya bean prices are trading approximately 30% below import parity levels (at or slightly below export parity levels), competition among the crushers is tough, and high-quality meal is offered at a discount of approximately R2 000/t for the inland markets.

With the local soya bean meal demand estimated at approximately 1,3 million tonnes, of which approximately one million tonnes is consumed inland, the total value of the discount for the feed and livestock industry for the current marketing season amounts to around R2 billion, which is multiple times larger than the total value of the import duty (approximately R120 million per annum) that would have to be paid by coastal feed mills if all soya bean meal consumed in the coastal areas is imported.

Furthermore, the contribution by producers in the form of technology levies to incentivise seed companies to provide South African producers access to the latest seed technology, amounts to approximately R180 million, also overshadows the relative value of the import duty that feed millers would pay. The availability and adoption of the latest seed technology and genetics remains a key driver for producers to stay profitable and produce sustainable surpluses at export parity price levels in future.

The relative competitiveness of soya bean crushers and the quality of meal they produce is not only determined by the cost and quality of soya beans, but also the ability of the facility to run at optimal utilisation of installed capacity to reduce capital expenditure (CapEx) and operating

expenditure (OpEx) per tonne of meal produced.

A fine balance

With an installed capacity of just over two million tons of dedicated soya bean crushing facilities in South Africa, it implies that the utilisation rate in the current season is projected to exceed 80% with a projected crushing volume of 1,8 million tonnes, which supports the overall cost competitiveness of the facilities. Under a scenario of duty-free soya bean meal imports, it is likely that much of the meal demand in coastal areas (approximately 300 000 tonnes) could be imported again as in the past, which implies that approximately 380 000 tonnes (20%) less soya beans will be crushed.

The fine balance of import duties within the complete oilseed complex (seed, meal and oil) and livestock industry has been a key factor in supporting the growth of the local industry. Many firms are also vertically integrated and benefit, for example, from the protection offered by the import duty on chicken meat. Hence, picking one or two duties in a stack of duties throughout the value chain makes it even harder to disentangle, and could lead to unintended consequences for other value chains in the oilseed complex.

All protein meals (sunflower, soya bean and canola) are trading in a fine balance and none of the import duties on soya bean meal will have a direct effect on the value of sunflower meal, putting an already strained industry under more pressure. Furthermore, if duties are only taken off from meal and not soya beans, crushers will be unable to compete in a year where South Africa has a shortfall of soya beans.

In conclusion

In a perfect textbook world, free trade with no duties and non-tariff trade barriers would render the optimal market. However, market trends and geopolitical dynamics are shaping a far more complex reality that is constantly evolving. Robust partnerships and dialogue among all stakeholders in the private and public sector are key for South African value chains to prosper, create jobs and drive inclusive growth in these complex global dynamics.

The collapse of our road and rail network, port facilities, and electrical grid has put our value chains on the backfoot. These inefficiencies are becoming the biggest drivers of food price inflation. When it comes to grains, oilseed, and livestock production, South Africa is a very small player in the global market. The spillover effects from a wide range of indirect support measures and subsidies in major exporting countries is significant.

In the case of soya bean meal, prices are at a two-year low and additional downward pressure can be expected in the next three to six months, due to the prospective oil demand-driven sharp increase in soya bean crushings. Vegetable oil demand is driven by major support and mandates in the biofuel industries. Although this is good news for intensive livestock operations, it implies that our local integrated soya bean and chicken value chains will be facing significantly more competition in future.

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