CAN SOUTH AFRICA COMPETE OVERSEAS?

BY

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South African grain farmers are lagging behind their counterparts in the US, Canada and Australia in terms of yield and profitability, but they also receive less protection against foreign competition. Difficulties are compounded by the high cost of security risks and uncertainty about the future of their land due to agricultural reform. Dr Philip Theunissen of Computus Mangement analyses the situation.

THE current crisis in profitability of South Africa's grain industries is undisputed. This season, maize and wheat farmers experienced their greatest losses in 20 years. The maize industry has been crippled by rock-bottom prices and wheat operations have been wrecked by reduced yields. This raises the question whether South African grain farmers can still compete against farmers in the world's top grain-producing countries. How do South African farmers fare, in rand terms, against their counterparts in Australia, Canada and the US?

Although circumstances differ substantially, estimated production costs of wheat and maize in these countries are readily available. Despite differences in tilling methods and climate, meaningful comparisons can nevertheless be drawn in the performance of farmers in the four countries. The comparative maize and wheat figures for the four countries are reflected in Table 1 and 2 respectively.
The maize yield in the eastern Free State equals the average yield in Queensland, Australia – 3,5 tons per hectare. The yield in Ontario, Canada is 7,7 tons per hectare, while Iowa in the US obtains yields of nine tons per hectare. Wheat yields are the highest in Canada (at four tons per hectare) while the eastern Free State yields a mere two tons per hectare. SA can still compete against Australia on yield, but it can't compete against the yields of the US and Canada.

Underlying cost components differ reasonably from country to country. Australia's estimated expenses for maize are the lowest, while the US estimates are the highest. The same applies to wheat. Due to huge yield differences, it's impossible to compare SA's cost per hectare with the US and Canada. However, it is more expensive to produce maize and wheat in SA than in Australia.

South Africa is clearly the worst off when it comes to estimated profit for the 2004/05 season. In terms of Graph 1 – at a yield of two tons per hectare and at the current price of R1 100 per ton – local wheat farmers have suffered a loss of R351 per hectare. Farmers in the other three countries have, however, made a profit at the rates prevailing in their countries.

Maize farmers in the eastern Free State are facing a loss of R1 169 per hectare, while Australian and Canadian producers should achieve reasonable returns. The US farmer will lose an estimated R22 per hectare in Iowa. US maize profits are also lagging, but are not nearly as far off the break-even point as those of SA farmers.

Graph 2 shows that estimated wheat production costs in Australia, the US and Canada are very close to prevailing prices. The prevailing SA price is, however, far below the local break-even price.

Of all four countries, SA farmers definitely fare the worst when it comes to maize and wheat production. Prevailing maize prices in Australia and Canada are substantially higher than break-even prices there. The US's prevailing maize price is only R2 per ton below the break-even price in that country. In comparison, the SA prevailing price is R334 per ton below the break-even price for the eastern Free State.

While it is clear that current SA grain prices are making our farmers uncompetitive against overseas farmers, there are other factors that are also influencing our competitiveness. These include:

- Soil fertility – the US and Canada have far superior soils to SA or Australia.
- Climate in combination with soil fertility – SA and Australia once again play second fiddle to Canada and the US.
- Water availability – farmers in the northern hemisphere fare better than farmers in the southern hemisphere.
- Infrastructure – the US is still regarded as the most developed grain producing country.
- Skills levels – the financial management and marketing skills of SA farmers may be below par.
- Trade protections – SA farmers aren't protected against foreign competition, unlike farmers in Canada and the US.
- Land – agricultural land is freely available in other countries, but in SA landownership is increasingly becoming politicised.
- Safety and security – these costs eat into SA profit margins but are negligible in the other three countries.

SA grain farmers presently can't compete against farmers in the world's important grain producing countries. SA could never really compete on yield with Canada and the US because of climate factors. But what is worrying, however, is that SA is no longer financially

competitive against Australia, despite agronomic circumstances being relatively similar in the two countries.

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TABLE 1: MAIZE DRY LAND (2004/05)

Country	*SA*	*Australia*	*Canada*	*USA*
Region	*Eastern FS*	*Queensland*	*Ontario*	*Iowa*
Exchange rate	*R 1.00*	*R 4.70*	*R 5.60*	*R 6.50*
Yield: (Tons/ha)	*3.5*	*3.5*	*7.7*	*9.0*
Price/ton in Rand	*450*	*732*	*576*	*502*
Rand per year per:	***Hectare***	***Hectare***	***Hectare***	***Hectare***
Produce sales	*1,575*	*2,560*	*4,436*	*4,514*
GROSS PRODUCTION VALUE	***R 1,575***	***R 2,560***	***R 4,436***	***R 4,514***
Seed	*333*	*254*	*581*	*559*
Fertilizer	*610*	*414*	*886*	*1,152*
Wead control	*178*	*94*	*346*	*514*
Pest control	*175*	*0*	*14*	*0*
Crop spraying	*0*	*0*	*0*	*0*
Harvest cost	*247*	*320*	*470*	*366*
DIRECT EXPENSES	***R 1,542***	***R 1,081***	***R 2,297***	***R 2,590***
Crop insurance	*57*	*0*	*138*	*112*
Transport	*111*	*28*	*208*	*81*
VARIABLE COST	***R 168***	***R 28***	***R 346***	***R 193***
Machinery cost	*949*	*846*	*581*	*535*
Interest	*85*	*27*	*111*	*133*
Casual labour	*0*	*0*	*0*	*435*
Other expenses	*0*	*0*	*623*	*650*
ALLOTTED EXPENSES	***R 1,034***	***R 873***	***R 1,315***	***R 1,753***
TOTAL EXPENSES	***R 2,744***	***R 1,982***	***R 3,958***	***R 4,536***
ENTERPRISE MARGIN	***-R 1,169***	***R 578***	***R 479***	***-R 22***
BREAKEVEN PRICE (Price/ton)	***R 784***	***R 566***	***R 514***	***R 504***
BREAKEVEN YIELD (Tons/ha)	***6.1***	***2.7***	***6.9***	***9.0***

WHEAT DRYLAND (2004/05)

Country	*SA*	*Australië*	*Canada*	*USA*
Region	*Eastern FS*	*Queensland*	*Alberta*	*Kansas*
Wisselkoers	*R 1.00*	*R 4.70*	*R 5.60*	*R 6.50*
Exchange rate				
Yield: (Tons/ha)	*2.0*	*2.5*	*4.3*	*3.7*
Price/ton in Rand	*1,100*	*495*	*576*	*824*
Rand per year per:	***Hectare***	***Hectare***	***Hectare***	***Hectare***
Produce sales	*2,200*	*1,238*	*2,499*	*3,049*
BRUTO PRODUKSIEWAARDE	***R 2,200***	***R 1,238***	***R 2,499***	***R 3,049***
Seed	*152*	*122*	*208*	*173*
Fertilizer	*383*	*249*	*571*	*672*
Wead control	*56*	*19*	*318*	*85*
Pest control	*120*	*0*	*0*	*0*
Crop spraying	*99*	*0*	*0*	*0*
Harvest cost	*304*	*212*	*0*	*226*
DIRECT EXPENSES	***R 1,114***	***R 602***	***R 1,097***	***R 1,156***
Crop insurance	*473*	*0*	*138*	*0*
Transport	*64*	*28*	*100*	*150*
VARIABLE COST	***R 537***	***R 28***	***R 238***	***R 150***
Machinery cost	*839*	*553*	*729*	*1,001*
Interest	*61*	*15*	*28*	*72*
Casual labour	*0*	*0*	*249*	*133*
Other expenses	*0*	*0*	*138*	*106*
ALLOTTED EXPENSES	***R 900***	***R 568***	***R 1,144***	***R 1,312***
TOTAL EXPENSES	***R 2,551***	***R 1,198***	***R 2,479***	***R 2,618***
ENTERPRISE MARGIN	***-R 351***	***R 40***	***R 19***	***R 431***
BREAKEVEN PRICE (Price/ton)	***R 1,276***	***R 479***	***R 572***	***R 708***
BREAKEVEN YIELD (Tons/ha)	***2.3***	***2.4***	***4.3***	***3.2***

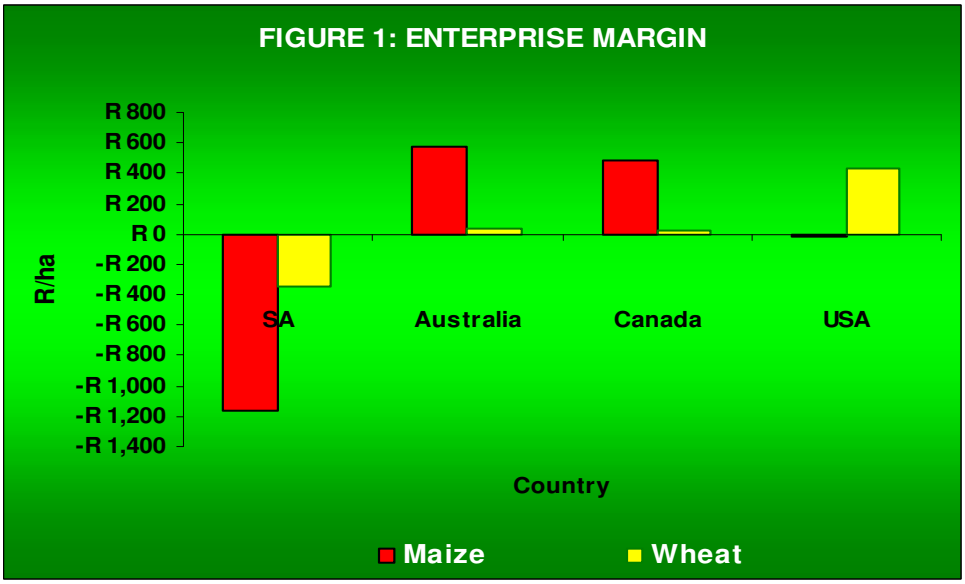
FIGURE 1: ENTERPRISE MARGIN
R 800
R 600
R 400
R 200
R 0
-R 200
-R 400
-R 600
-R 800
-R 1,000
-R 1,200
-R 1,400
R/ha
SA
Australia
Canada
USA
Country
Maize
Wheat

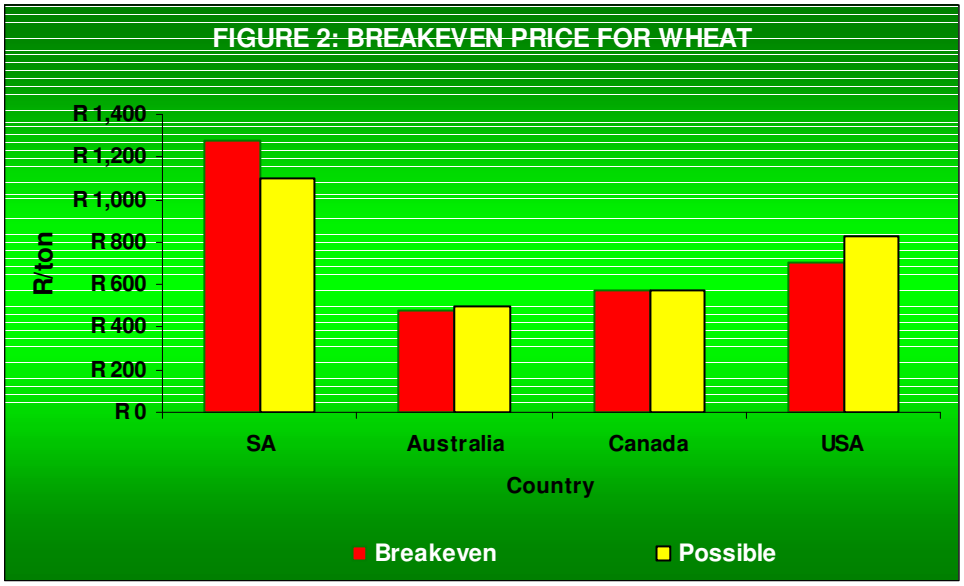
FIGURE 2: BREAKEVEN PRICE FOR WHEAT
R 1,400
R 1,200
R 1,000
R 800
R 600
R 400
R 200
R 0
R/ton
SA
Australia
Canada
USA
Country
Breakeven
Possible

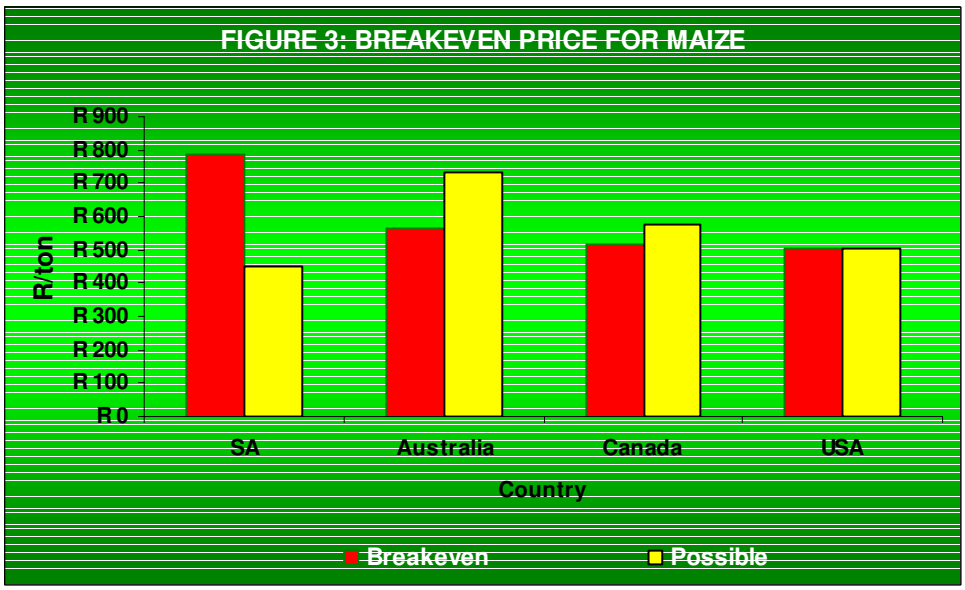
FIGURE 3: BREAKEVEN PRICE FOR MAIZE
R 900
R 800
R 700
R 600
R 500
R 400
R 300
R 200
R 100
R 0
R/ton
SA
Australia
Canada
USA
Country
Breakeven
Possible