

# Import replacement opportunities for local vegetable oils in context

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**W**hen stakeholders discuss reform at sector level, import replacement or localisation of food production is often first on the agenda. Proponents argue that this boosts local production and results in higher levels of investment, economic growth, and job creation in the domestic economy.

A wide range of policy instruments and strategic public sector investments are available to achieve this but, typically, tariffs and tariff quotas are used as the first logical option. There are compelling counter-arguments that merit careful consideration of import replacement and localisation strategies.

## Local vegetable oil situation

Vegetable oils used in human diets and animal feeds constitute one of South Africa's largest categories of processed food imports, with a trade deficit of R8,6 billion in 2020. Palm oil imports are the largest in this category, ranked fifth out of all food and agro-processing imports, with more than R4,5 billion imported per annum.

Palm oil imports have grown consistently over time, more than doubling from 248 000 tons in 2001 to 525 000 tons in 2020. Just down the list are annual sunflower oil imports of more than R2 billion.

In contrast, soya bean and canola oil imports have gone the opposite direction, with the imported product consistently replaced by locally manufactured imports of oilcake. In the case of soya bean oil, import volumes declined from 278 000 tons in 2011 to 150 000 tons in 2020. Based on the Bureau for Food and Agricultural Policy's (BFAP) latest outlook, less than

50 000 tons will be imported annually by 2030.

## The palm oil question

These contrasting trends beg the question: Why does South Africa not replace palm oil imports with an import replacement strategy? The obvious answer is that we do not produce palm or palm oil as we lack the tropical climates of big producers such as West Africa, Indonesia and Malaysia. However, if planting palm is not an option, then why not substitute palm oil use with locally produced oil from sunflowers, soya and/or canola?

## Pricing issues

The first element to consider is the relative pricing of vegetable oils. Palm oil trades at much lower prices internationally than any of the other major vegetable oils. This relationship is not expected to change, despite the current spike in vegetable oil prices. Palm oil is a low-cost alternative to many other vegetable oils, and yields up to ten times more oil per unit area than other oilseed crops.

Secondly, due to the high level of imports, local vegetable oil prices are closely linked to international prices. Therefore, from a pricing perspective, palm oil trades at a discount of approximately 25% compared to sunflower and soya bean oil.

Thirdly, apart from competitive pricing, the initial rapid growth in palm oil imports was ignited when the South African Department of Health issued legislation regulating the use of trans-fatty acids in foods in 2010. Food manufacturers and fast-food outlets subsequently required a fat alternative that did not convert to trans fats with

heating, yet provided the same solid texture and taste in foods without the industrial addition of hydrogen. Palm oil offered the solution, and took over this market segment.

A considerable amount of research has been undertaken into the development of high-oleic sunflower and soya beans that will comply with health regulations. However, this oil cannot be produced cost-effectively in the bulk market, and is currently traded only in niche premium markets.

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Thus the opportunity for import replacement in the bulk vegetable oil consumption market is limited to replacing imported sunflower, soya bean and canola oil. Localisation strategies should be based on improved competitiveness from the farm to the processor and retailer. This includes maintaining and expanding infrastructure such as roads, electricity, water, rail and ports.

Soya bean and canola production has increased rapidly through the introduction of high-performing cultivars, best farming practices, and major investments in the processing and handling of canola and soya beans. 🌱

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