Cutting costs to retain long-term competitiveness

By Theo Boshoff, chief executive officer, Agbiz

This year has reminded us of the extent to which South African agriculture – particularly the grains and oilseeds industry – is affected by international events beyond our control.

La Niña has resulted in two consecutive years of above-average rainfall. While this is generally positive for field crops, the exceptional rainfall has resulted in damage to crops and a delay in harvesting. The ongoing conflict in the Black Sea region has also harmed the subsector.

On the one hand, it resulted in higher input costs as energy prices soared and fertiliser costs increased due to reduced global supply coupled with higher shipping costs. On the other, drought and supply-side constraints from the Black Sea region pushed up the price of oilseeds and cereals. This will not be news to anyone operating in the subsector.

Maintaining SA's profitability

While 2022 may be an outlier, the Bureau for Food and Agricultural Policy predicts global prices for the field crop sector to be largely flat. With this in mind, the South African subsector needs two elements to remain profitable, namely scale and a reduction in costs. As part of Agbiz's efforts to create an enabling environment for agribusiness in the country, our focus is squarely on systemic elements that reduce unnecessary costs to the system.

Discussions are under way with Transnet to determine the prerequisites for companies to consider moving grain transport back to rail. South Africa used to transport up to 80% of this commodity on rail, but this percentage flipped once government decided to focus its infrastructure spend on roads.

Globally, long-distance transport by rail is significantly cheaper than by road, but significant changes would be required for the industry to move back to rail. In certain instances, sidings have been neglected and significant investment may be required to operationalise these silos after 25 years of inaction. It would be unfair to expect agribusinesses to carry this burden, thus financial solutions in partnership with government and development agencies are needed to revitalise these lines. Likewise, not all lines will be financially feasible.

Facing challenges, together

Agbiz is in the process of signing an interface agreement with Transnet whereby industry and transport can jointly map out the agro-logistic network and identify areas where partnerships are needed. Reliability is another key constraint, but the industry and Transnet are already working closely to improve service and clamp down on cable theft, which causes disruptions.

Regulatory costs related to product inspections also need to be viewed within the broader prism of competitiveness. The grading and inspection of grain is a necessary component to facilitate trade, but the various options available to do so must be analysed. There is a legitimate purpose to these inspections, but the options need to be carefully considered to ensure that preference is given to a system that reduces costs and avoids duplication while still meeting the objective of the *Agricultural Products Standards Act, 1990 (Act 119 of 1990)*.

A culture of innovation

Agbiz is facilitating a process that brings together stakeholders within the broader value chain, as well as the Department of Agriculture, Land Reform and Rural Development. We hope that through continued dialogue, the parties will arrive at a conclusion that maintains standards with due regard to the costs imposed as this affects the competitiveness of the sector.

Theo Boshoff.

Finally, South Africa needs to embrace a culture of innovation if we are to remain competitive in the face of climate change. The industry has embraced biotechnology, but work is needed to foster a regulatory environment that encourages the adoption of technology.

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